



# ***JPRS Report***

# **China**

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U.S. DEPARTMENT OF COMMERCE  
NATIONAL TECHNICAL INFORMATION SERVICE  
SPRINGFIELD, VA. 22161

19980123 143

**DTIC QUALITY INSPECTED 3**

**DISTRIBUTION STATEMENT 1**

Approved for public release;  
Distribution Unlimited

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JPRS-CAR-90-065

## CONTENTS

22 AUGUST 1990

### INTERNATIONAL

#### GENERAL

- Strategies of Major Military Powers in Next Decade [GUOJI ZHANWANG No 10] ..... 1  
Factors in Changing U.S.-Japanese Relations [SHIJIE ZHISHI No 13] ..... 2

#### SOUTHEAST ASIA/PACIFIC

- ASEAN Nations Stand Firm on Cambodian Issue [RENMIN RIBAO 27 Jul] ..... 4

#### NEAR EAST/SOUTH ASIA

- Analysis of Developments in Middle East  
[Hong Kong LIAOWANG OVERSEAS EDITION No 27] ..... 5

#### EAST EUROPE

- Albania Responds to Changing Global Situation [SHIJIE ZHISHI No 14] ..... 7

### POLITICAL

- Developments in New Civil Service System [LIAOWANG No 11] ..... 10  
Vice Minister of Personnel Comments ..... 10  
Recruitment by Examination ..... 12  
Training Called Basic Task ..... 14  
Political Reasons Seen Behind Hu Jiwei Dismissal [Hong Kong CHAO LIU No 38] ..... 15  
Democracy Movement's Propaganda Ship Founders [YANGCHENG WANBAO 13 Jun] ..... 17

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

- Assessment of Economic Reform in 1989 [GAIGE No 3] ..... 19  
Status of Contract System Viewed [JINGJI YANJIU No 6] ..... 27  
Impact of Rectification on Capital Goods Market [JINGJI LILUN YU JINGJI GUANLI No 3] ... 38

#### FINANCE, BANKING

- Construction Bank Examines Monetary Issues [JINRONG SHIBAO 12 Jun] ..... 41  
Industrial, Commercial Bank Holds Directors Forum [Shenyang Radio] ..... 43

#### INDUSTRY

- Output of Light Industrial Products in July [CEI Database] ..... 44  
Industrial Value by Province [CEI Database] ..... 44  
Sichuan Industrial Production Increases in July [Chengdu Radio] ..... 45

#### SMALL-SCALE ENTERPRISES

- Report on Rural Enterprise Development, Coordination  
[ZHONGGUO NONGCUN JINGJI Nos 5, 6] ..... 45

## LABOR

Shanghai Firm Supplies Labor to Foreign Business [XINHUA] .....	63
Chen Muhua on 'Low' Number of Female Officials [XINHUA] .....	63
Polytechnical Schools, Students Increase [XINHUA] .....	64

## TRANSPORTATION

Construction of Ports, Highways Planned [XINHUA] .....	64
Beijing-Tianjin Freeway Set To Open [XINHUA] .....	64
Northern Xinjiang Railway Reaches Alashankou [XINHUA] .....	64

## AGRICULTURE

Pyrethroid Microcapsules Effective Against Insects [KUNCHONG ZHISHI No 3] .....	64
Peasant Enthusiasm Called 'Key' to Agriculture [LIAOWANG No 17] .....	65
Effects of Agricultural Prices on Macroeconomic Goals [NONGYE JINGJI WENTI No 5] .....	68
Article Views Contract System in Henan [RENMIN RIBAO 13 Jul] .....	73

## SOCIAL

Liu Xiaobo Examines National, Western Cultures [Hong Kong MING PAO YUE KAN No 295] .....	77
Openness to World Cultures Advocated [SHEHUI KEXUE No 4] .....	80
Deceit Seen Widespread in Socioeconomic Life [SHEHUI No 4] .....	84
Survey Examines Causes of Crime Among Young Workers [FAZHI RIBAO 11 Jun] .....	86
Pressure To Go Abroad Remains High [Hong Kong CHIUSHIH NIENTAI No 244] .....	88

## MILITARY, PUBLIC SECURITY

Advances in Tank Production Reported [Hong Kong KUANG CHIAO CHING No 212] .....	91
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## REGIONAL

### EAST REGION

Jiangsu Journal Comments on Party-Masses Relations [QUNZHONG No 6] .....	96
Jiangsu Rural Ideological, Political Work Discussed [QUNZHONG No 6] .....	97

### CENTRAL-SOUTH REGION

Guangdong Leadership Changes Ascribed to Power Struggle [Hong Kong KAIFENG No 42] .....	98
---	----

## PRC MEDIA ON TAIWAN AFFAIRS

Taiwan Economic Model Seen Unsuitable for Mainland [Hong Kong LIAOWANG OVERSEAS EDITION No 16] .....	101
---	-----

## TAIWAN

Profile of New Mayor of Kaohsiung [TZULI WANPAO 3 Jun] .....	104
Editorial Discusses Trade Deficit With Japan [CHING CHI JIH PAO 6 Jun] .....	105

## GENERAL

### Strategies of Major Military Powers in Next Decade

90CM0285A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 10, 23 May 90 21-22

[Article by Zhao Zongjiu (6392 1350 0046) and Lu Haiyan (6424 3189 3601): "Military Strategies of Major Countries in the Next 10 Years"]

[Text] The relaxation of international tensions, regional turmoil, and the beginning of a new arms race are the main factors behind changes in current military strategy in the major nations of the world.

#### The United States

After the Bush administration came to power, the United States went through a great debate on security that lasted more than a year. Adjustment of the nation's security and defense policies has basically come to an end, and the shape of U.S. military strategy has come into focus. The newly readjusted military strategy will not undergo any major changes during President Bush's four-year term of office. This is a fundamental assumption upon which to base observation of U.S. military strategy in the first half of the 1990's, and even over the next 10 years. Specifically, there are several clear trends shaping up for U.S. military strategy over the next 10 years. First, its strategic enemy will not change. The Soviet Union is still the primary competitor with the global strategic interests of the United States, and U.S. strategy will continue to be oriented mainly toward Europe. There will be no major reduction of U.S. troops stationed in Europe. Although funding for the Strategic Defense Initiative may be reduced, the continuity of the program will be maintained. The United States will continue to gradually improve strategic offensive and defensive strength and will maintain the strategic upper hand it enjoys in its rivalry with the Soviet Union. Second, the scope of its military intervention will continue to expand. Particularly in the wake of the Soviet Union's military reductions, military intervention by the United States in the Third World will increase markedly. The United States has strengthened measures to deal with low-intensity conflicts and is stressing preparation for conventional warfare within the context of nuclear deterrence. Third, the basic nature of its deterrence-plus-conventional warfare strategy will not change. In the midst its strategic readjustment, not only has the United States not reduced efforts to build up its strategic offensive forces, it has in fact placed even more emphasis on development of offensive strategic and conventional forces. Development of the MX missile and the Trident I 5D submarine-launched missiles are proceeding on schedule, and the intent is to use these weapons as soon as deterrence breaks down. Fourth, the United States will continue to carry out its policy of national power, negotiations, and partner relationships. At the same time that it adds to its national strength, it will not abandon

arms control negotiations. It will place great importance upon using the strength of its allies to carry out its strategy of alliance and put its allies on its strategic front lines. Fifth, it will reduce military spending to an appropriate degree, readjust its troop structure, and maintain appropriate size. It will carry the principles of controlling quantity, raising quality, and protecting key aspects, thereby deriving the greatest possible strategic benefit from limited military funds.

#### The Soviet Union

After a process lasting several years, the Soviet Union's military readjustment has been fundamentally completed. The Soviet Union has carried out a readjustment of military strategy once every 15 years during the postwar period. According to this pattern, the military strategy which has recently taken shape should remain in force for the next 10 years. It is distinguished by several characteristics. First, a defensive strategy will be pursued. Arms will be maintained at a "reasonable and sufficient" level. The Soviet Union will carry out a global strategic retrenchment, avoid involvement in new military conflicts, reduce its defense commitments to its allies, and complete its withdrawal of troops from foreign countries. Second, the Soviet Union will emphasize that there are no winners in nuclear war. It will achieve parity with the United States at a low level (quantity-wise) of strategic and conventional weapons. It will continue to improve the quality of its weapons, maintain its deterrent capability vis-a-vis the United States and other potential enemies, and build up strategic offensive and defensive systems. Third, the focus of its war preparations will be on fighting a high-tech conventional war while rigorously maintaining nuclear preparedness. It will strengthen preparedness for a long-term war. Fourth, it will control the pace of arms development, reduce military spending to an appropriate degree, focus its efforts on the rivalry for technological superiority, and stress the development of certain important weapons.

#### Europe

Military strategy in the various nations of Europe will undergo changes as a result of political changes in the Soviet Union and Eastern Europe as well as the accelerating pace of German reunification. First, the various nations of Eastern Europe will no longer depend on the Soviet Union for defense. Some of these countries will adopt a neutral defensive stance, leading to the demilitarization of the Warsaw Pact. Second, after Germany has reunified, it could pursue an independent military strategy as its politics change. That would change the current situation, in which it lacks an independent military strategy, and would allow Germany to establish its own defense system and its own principles for the use of its armed forces. Third, after Germany has reunited, the effort to prevent German military escalation will become a new aspect of the military strategy of every country in Europe. Fourth, every country will continue to bolster research and development of military high



technology in order to strengthen their own positions as relatively major powers in the intense military rivalry of the future.

### Japan

Japan's military strategy for the next 10 years will continue to be based on its military alliance with the United States. Japan will strengthen military cooperation with the United States, pursue a policy of active defense, and complete its plan to reorganize and outfit its defensive forces. Japan will also upgrade its weapons and equipment, readjust the structure of the Self-Defense Forces, and expand its maritime defense perimeter by increasing defense spending. This will improve its standing in its military alliance with the United States, lay the foundation for a gradual reduction of its reliance on U.S. conventional forces, and prepare Japan to take another step toward status as a regional military power.

### India

India's military strategy for the next 10 years will be characterized by several aspects. First, it will carry out unified planning of military construction to achieve its final goal of becoming a global military power, a goal which is encapsulated by the phrase "maintain a secure footing in South Asia, look out upon the Indian Ocean." India intends to turn its military force into a deterrent against its neighbors, which can also restrict and keep track of the movements of the superpowers in the Indian Ocean. Second, India will maintain a "balanced nuclear deterrent" vis-a-vis its neighbors; adopt a "last fuse" nuclear strategy; establish an airborne nuclear counterattack capability, a seaborne nuclear deterrent, and land-based nuclear forces; and maintain the effectiveness of its nuclear deterrent. Third, it will adapt to high-tech, low-intensity conflict, build up its conventional forces, and set for itself the ultimate goal of becoming self-sufficient in arms production. It will attempt to produce all of its arms domestically and to modernize them. Fourth, it will continue to pursue its active defense concept. It will stress preemptive strikes, three-dimensional attacks, and quick strikes for quick conclusions.

The circumstances listed above show that every major military power will continue for the next 10 years to carry out military strategies that have recently been readjusted, and they will flesh out their military strategies in response to changing international military conditions in order to maintain the continuity of their military, clarify the focus of military development, and strengthen the effectiveness of military strategy.

### Factors in Changing U.S.-Japanese Relations

HK3007111990 Beijing SHIJIE ZHISHI [WORLD KNOWLEDGE] in Chinese No 13, 1 Jul 90 pp 10-11

[Article by Zi Jian (1311 0494): "Two Problems in U.S.-Japanese Relations"]

[Text] *U.S.-Japanese relations have entered the most turbulent period in the postwar era, with many contradic-*

*tions that are marked with emotion and that are difficult to solve through negotiations. Japan is no longer an obedient lamb to the United States; however, the United States is using pressure to try to draw Japan in.*

Postwar U.S.-Japanese bilateral relations have entered the most turbulent period because of the rise of nationalism, the increasingly conspicuous contradictions and differences in the U.S.-Japanese strategic security factor, as well as economic friction.

**Rising of national sentiment has aggravated antagonism in U.S.-Japanese relations.** Because of the continuous increase of its economic strength, Japan no longer plays the obedient lamb to the United States and, in some arenas, occasionally puts on a rival show. In his first trip out of the country shortly after he took the prime minister's office, Kaifu stated that Japan is no longer an obedient pupil to his American teacher, and U.S.-Japanese relations have become "a partnership based on equality, cooperation, and occasional competition." In the book *The Japan That Can Say 'No'* coauthored by Akio Morita, general executive of Japanese Sony, and Congressman Shintaro Ishihara, they challenged the U.S. hegemonist status without reservation. The book represents the thinking and sentiments of a considerable number of people in Japan. Not long ago, Japan purchased Columbia Pictures Industries, which was representative of the American soul, and over 50 percent of the Rockefeller Center, which is the symbol of the United States. To the eyes of some Americans, this means that the United States "has lost control of its own country and its culture."

Japan's "audacity" has aroused great shock and repugnance in the United States. A recent poll conducted by the authoritative U.S. COMMERCE REPORTS showed that 68 percent of Americans believed that, compared with Soviet military strength, Japan's economy posed a greater threat to the United States. A recent NEW YORK TIMES poll also showed that 25 percent of Americans "have lost their good impression" of Japan. At the same time, the criticism against Japan by various circles in the U.S. Government and public has grown sharply, with resentment on the rise. Buchanan, who was an assistant to Presidents Nixon and Reagan, stressed that the United States needs a "new nationalism and patriotism, namely, a new foreign policy that places U.S. interests not only in first, but also second and third places"; "the United States cannot always protect those wealthy countries that refuse to protect themselves"; "the Monroe Doctrine should once again become the cornerstone of U.S. foreign policy." Dr. Kissinger, former U.S. secretary of state, even proposed "not to brush off the possibility of the United States and the USSR joining hands to deal with Japan." Not long ago, Iacocca, Chrysler's general executive and celebrity of U.S. entrepreneurial circles, also criticized Japan for "entirely closing its market," in an attempt "to impair competition to bring down its opponents."

Along with the recent changes in East Europe, a so-called "revisionist faction" advocating a review of U.S. policy toward Japan has surfaced in the United States. Members of this faction assert that Japan is an "alien nation," and its habitual practice, laws, and decrees are incongruent with the standards of free competition and the market economy, and they believe that the "shrewd and stubborn Japanese have taken advantage of the generous and defenseless Americans." Those holding the above views believe that U.S.-Japanese relations "are beset with the gravest crisis since the end of World War II," and a "new thinking" is called for to wisely handle the crisis; otherwise the two countries are heading for a breakup. They proposed to control trade with Japan or to restrict Japan's investment in the United States. The views of the "revisionist faction" have won the support of many in the United States, including some personalities in political circles.

The Japanese complained about the Americans for failing to review problems resulting from their own faults, while putting the blame on Japan. A NEWSWEEK poll conducted early this year showed that 64 percent of the Japanese believed that the United States took it out on the Japanese. However, the real causes for their problems were the incompetence of U.S. statesmen, such social problems as drug addiction, drinking, and laziness along with too many races; "the indecisive and spendshrift Americans are ceding their leadership to the diligent Japanese."

A series of caricatures carried in the recent issue of a Japanese journal quite capably and vividly embodied such sentiments: The first showed a fat American sitting in front of a television set with a can of beer and popcorn close at hand, while remaining indifferent to some Soviet troops passing by; the second showed that the American did not even bat an eye when a fighter plane and guided missile whirled above his head; and the third showed the American shuddering at the sight of a short Japanese tourist with slanting eyes and a camera slung across his shoulder.

Currently, many people in the United States and Japan are worrying about the rise of such national sentiment, lest relations between the two countries be injured. They believe that many existing issues can "hardly find a solution through talks, because of the emotions involved."

**The U.S.-Japanese strategic security factor is the key to relations between the two countries; the military relations between the two sides have been harmonious, but many contradictions and differences exist.** The Japanese-U.S. Security Treaty initialed in the 1950's has included Japan in the orbit of U.S. strategy toward the USSR. For scores of years, Japan has been a U.S. frontier base in the Far East, working in coordination with NATO, and shaped into a pincerlike encirclement of the USSR. Although U.S.-Soviet relations have relaxed somewhat, the base of this military alliance has never been shaken. To deal with the "unpredictable" world situation, and its

interests in the Asian-Pacific region, the United States must rely on U.S.-Japanese strategic relations and Japan's economic strength. When President Bush and U.S. Secretary of Defense Cheney met the Japanese leader this year, they both stressed the importance of the U.S.-Japanese security system. From Japan's angle, it needs U.S. protection because it is far from having full-fledged military strength. Aiming at those within Japan who advocate abolishing the Japanese-U.S. Security Treaty, the Japanese Ministry of Foreign Affairs stated that, because the USSR remains a "potential threat" to Japan, the Japanese-U.S. Security Treaty plays a "containing" role and guarantees the peace and stability of the Asian-Pacific region, and that is is vitally important for Japan to push forward dialogue with the USSR.

However, the relative unanimity of the United States and Japan on the safety and interests of the Asian-Pacific Region cannot prevent them from quarreling over the sharing of defense spending. The United States criticized Japan's "free ride" in security and defense, while demanding that Japan take up a greater share of defense spending by raising Japan's share of the costs of U.S. troops stationed in Japan from the present 40 percent to 100 percent (\$6 billion), but Japan has flatly refused on the grounds that increasing its share of expenditures means revising the existing agreement on the role of U.S. and Japanese troops and raising debates on the necessity for the presence of U.S. military bases in Japan and the very existence of the U.S.-Japanese alliance. On the one hand, the United States wants Japan to increase defense spending; on the other, it has great misgivings lest Japan's role in the Asian-Pacific region be magnified. The commander in chief of the U.S. 7th Fleet recently made it clear that, should Japan shoulder the entire cost of U.S. troops stationed in Japan, they may come under Japanese restrictions in their movement and policies.

After World War II, the United States repeatedly encouraged Japanese arms expansion, with the bottom line that "Japan is not to become a superpower on the East Pacific." In July 1985, the U.S. Senate adopted a bill on monitoring Japan's efforts in defense building. Recently, the U.S. Defense Department has made it more explicit in its "East Asian Strategic Plan" that the United States will "contain Japan's efforts in improving its fighting capacity and developing arms systems that fail to supplement those of the United States." A typical example of containing Japan's "input in its fighting capacity" is that the United States refused to allow Japan to develop aircraft carriers and reserve forces. The United States intends to restrict Japan in developing its defense forces and equipment, and to impede Japan in developing arms systems on its own. Recently, the United States has worked in cooperation with Europe to break through Japan's monopoly in computer chips. It is believed that the tasks of U.S. troops stationed in Japan will not be confined to countering Soviet threats, but include the monitoring of Japan. At the U.S.-Japanese summit last March, the conception of "Japan, the United States, and

Europe strengthening political negotiation" as proposed by President Bush was derived from the intention of "binding Japan tighter to the Western alliance system."

Although there are contradictions of sorts in U.S.-Japanese relations, no radical change in the basic pattern of the relations between the two countries is on the horizon in the foreseeable future. President Bush has repeatedly stressed the "especially great importance" of U.S.-Japanese relations in the next 10 years," and the two countries will maintain their "partnership of a global nature"; Prime Minister Kaifu has on several occasions stressed the need to remove hurdles to promote the relations between two countries. However, with the growth of Japan's national strength, U.S.-Japanese contradictions will develop further. It will be very difficult for the United States to realize its plan of "the United States playing the leading role and Japan playing the supporting role"; "the United States formulating the strategy, while Japan writes checks"; and Japan will continue its efforts to break away from the United States. The situation of the United States and Japan depending on each other while competing with each other will continue for a long time.

## SOUTHEAST ASIA/PACIFIC

**ASEAN Nations Stand Firm on Cambodian Issue**  
*HK3107073790 Beijing RENMIN RIBAO in Chinese*  
27 Jul 90 p 6

[Article by staff reporter Lie Aicheng (0491 1947 2052):  
"ASEAN Adheres to Its Stand on the Cambodian Issue"]

[Text] Bangkok, 26 Jul (RENMIN RIBAO)—The two-day 23d Meeting of Foreign Ministers of ASEAN Nations ended yesterday in Jakarta. The meeting emphasized serious discussion of the Cambodian issue and responded strongly to the United States' about-face on the Cambodian issue. The joint communique issued at the meeting pointed out that changing the representation of the Coalition Government of Democratic Kampuchea [CGDK] in the United Nations under the current situation would frustrate the efforts to seek a comprehensive solution to the Cambodian issue. ASEAN ministers proposed that, before the United Nations begin this year's session, a supreme national committee acceptable to all sides in Cambodia be established, which would have the right to represent Cambodia in the United Nations, and that prior to its establishment the legitimate seat of the CGDK in the United Nations be maintained. Thai Foreign Minister Sitthi said that ASEAN would play a guiding role in continuing to secure the CGDK's seat in the United Nations, strengthen the work of UN member nations, and persuade them to continue to support the CGDK. He said, "Only when we strive harder at UN sessions will ASEAN have the opportunity to retain the CGDK seat in the United Nations."

ASEAN diplomats here told this reporter that ASEAN made the above policy decision in keeping with its consistent stand and in light of the actual situation in Cambodia.

For a long time, out of their stand of opposing Vietnam's invasion of Cambodia, ASEAN nations have made unceasing efforts to secure the legitimate seat of the CGDK resistance forces in the United Nations. Moreover, they have received wide-ranging support from the overwhelming majority of countries in the world which uphold justice and love peace.

People are very clear that the so-called "total troop withdrawal" from Cambodia declared by Vietnam last 26 September was conducted without international supervision. And information from all corners has confirmed that several tens of thousands of armed Vietnamese troops are still in Cambodian territory, helping the troops of the Phnom Penh government. As long as the invading Vietnamese troops are present in Cambodia, the nature of the Cambodian issue will still be one of occupying and being occupied.

Despite the positive efforts by ASEAN and the five permanent members of the UN Security Council to seek a comprehensive solution to the Cambodian issue, Vietnam and the Phnom Penh government still stick to their original stand. This can be seen in their two aspects of "maintaining the present situation." First, as for state power during Cambodia's transition period, Vietnam has neither agreed to entrusting it to the United Nations, nor consented to self-management by a supreme national committee consisting of all factions in Cambodia. It advocates that the Phnom Penh regime should remain as it is. In other words, it wants the regime to continue possessing state power. Second, in handling the troops of the four factions in Cambodia during the transition period, Vietnam does not consent to the proposal that the United Nations send a peacekeeping force to Cambodia, and that the troops of the four factions be assembled at a place designated by the UN supervisory organization and then disarmed or have their numbers greatly reduced. Vietnam maintains that the troops of all factions should remain where they are now. In other words, it will maintain the military strength of the Phnom Penh regime and secure the place it now occupies.

Singapore Foreign Minister Wong Kan-seng pointed out clearly at the meeting that under the present situation, abandoning support for the CGDK would only incite Vietnam to take a tougher and more stubborn stand on the Cambodian issue. He said, "Removing the legitimate seat of the CGDK resistance forces in the United Nations has always been the main objective of Hanoi. If we hand it over to Hanoi now, the Vietnamese will be more convinced that there is no reason to hold serious talks." The meeting maintained that canceling the seat of the CGDK in the United Nations will not be helpful to promptly solving the Cambodian issue.

At this meeting, the ASEAN foreign ministers also demonstrated their consistent stand again by supporting Prince Sihanouk as the legitimate leader of Cambodia, and by supporting the idea that the four factions in Cambodia share the right to participate in finding a political solution to the issue and to join the future organization of state power.

These foreign ministers stressed that it was not only impractical but also unfavorable to a comprehensive solution to the Cambodian issue to exclude any side from the others. Thai Foreign Minister Sitthi reiterated, "Each faction should have an equal chance and should be subject to election by the people. The final decision will not be made by foreigners but by the Cambodian people."

The meeting also studied various questions such as how to get the four factions to have a coordinated stand on the questions of establishing a provisional organization of state power; organizing a supreme committee; making a proposal that is acceptable to all sides; letting the United Nations play its role; and comprehensively resolving the Cambodian issue as soon as possible. These foreign ministers supported the Indonesian foreign minister's proposal—that a quadripartite meeting be convened by the organizations in Paris on 30 July. They firmly believed that the Cambodian issue must be resolved within the framework of the international meetings in Paris. The meeting hoped that the international meetings in Paris would be resumed in order to seek a comprehensive political solution to the Cambodian issue.

The stand and efforts of the ASEAN foreign ministers mentioned above show clearly that the ASEAN nations adhere to their principles and stand on the Cambodian issue.

## NEAR EAST/SOUTH ASIA

### Analysis of Developments in Middle East

HK3007011090 Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 27, 2 Jul 90  
pp 27-28

[Article by Chen Peiming (7115 0160 2494): "New Tensions in the Middle East"]

[Text] In recent months, the Middle East situation has been getting tense again. Israel's position of stubbornly sticking to its expansionist policy brought setbacks to the peace process. The uprisings and struggles of the Palestinian people in the occupied territories continued to develop, and the Israeli authorities stepped up suppression. Violent conflicts became more frequent. Both the Israeli side and the Arab side intensively expanded their armaments, and both possessed weapons that could deal devastating blows to the other side. The PLO continued to pursue its peace-seeking strategy, but because Israel refused to make any concession, some people in the PLO

became more radical in their feelings. In particular, an ultrarightist cabinet was formed in Israel, and this cast a dim shadow for the prospects of peace in the Middle East. In what direction will the Middle East situation develop? Will Israel provoke another war in this region? How are the policy tendencies in various quarters affected? People who are concerned about the international situation pay close attention to these questions.

First, the "most hawkish cabinet" in Israel's history was recently formed, and this was an inauspicious omen for the development of the Middle East situation.

On 11 June, the new Israeli Cabinet was officially formed. It was composed of the Likud bloc and seven other ultrarightist parties and religious parties. The main cabinet members are all notorious rightist figures in the Likud bloc. The new cabinet announced in its administrative program that its primary task would be to receive a large number of new Jewish immigrants (it is expected that 250,000 Jewish immigrants from the Soviet Union will arrive in Israel this year), in order to "reinforce, expand, and develop" the Jewish immigrants' settlements in the West Bank and the Gaza Strip, and the new cabinet also announced that it would "employ every possible means" to suppress the uprisings and struggles of the Palestinian people in the occupied areas. These two tasks served the same purpose, that is, to permanently occupy the Palestinian land and throttle the Palestinian people's right of national self-determination. As soon as the new cabinet assumed power, the Israeli troops committed a new crime of using poisonous gas to kill several hundred Palestinian women and children and opening fire to injure 30 Palestinian people. New Defense Minister Arens joined senior Israeli officers in studying the new tactics for "thoroughly quelling the uprisings," and they planned to take the more savage means to stamp out the uprisings.

The new Israeli Cabinet also talked about "advancing the peace process." However, its administrative program and Shamir's speech showed that it absolutely refused to solve the Palestinian issue, refused to give up the occupied territories, and refused to hold "direct or indirect" talks with the PLO. It held that the 1978 David Camp agreement should be taken as the "framework for settling the Israel-Palestinian dispute," and only agreed to allow the Palestinian people to exercise a limited degree of self-rule under the rule of the Israeli authorities. Moreover, Israel would hold peace talks only with major Arab countries. Obviously, the Shamir regime tried to backtrack to the old path of more than 10 years ago and disregarded the current reality in the Middle East situation. Such an attempt will be in vain. However, Israel will maintain a hostile position toward the peace issue and the Palestinian issue, and will thus make the Middle East situation more turbulent and tense.

Second, the struggle of the people in the occupied areas will face more severe tests, and the people will become more emotional and radical in their struggle.



Over the past two years or more, their uprisings and struggles did not wane. The people involved in the uprising followed some firm leaders and were well organized, and their struggle's objective became clearer: that is, to oppose Israel's occupation and to build a Palestinian state on their land. The people involved in the uprising did not fear death and advanced wave upon wave. They forced Shamir to dish out an election program last year in the occupied areas, and Shamir tried to stamp out the uprisings by both military and political means. However, facts showed that no matter what tricks the Israeli authorities played and no matter what sufferings they brought to the uprising people, the Palestinian people's will to strive for independence could never be subdued.

At the same time, some famous Palestinian peace advocates in the occupied areas also became more emotional and radical in their struggle. Not long ago, 50 peace advocates headed by Feisar Nousaini [6316 5646 1422 0186 6357 1441], director of the Arab Research Center of East Jerusalem, staged a hunger strike to protest Israel's action of shooting and killing Palestinian workers. After the United States vetoed the UN Security Council's draft resolution on sending an investigation group to the occupied areas and threatened to suspend the dialogue with the PLO, they issued a statement to strongly condemn the United States and call on the Arab countries to sever military cooperation relations with the United States, to boycott U.S. goods, to withdraw money from U.S. banks, and to stop supplying oil to the United States. They also announced that they would not keep any contact with the U.S. official quarters. These peace advocates were originally "moderate people" in the eyes of the United States and the Israeli authorities, and were once considered by the Israeli authorities as their acceptable negotiation partners. The radical emotion of these peace advocates showed that their contradiction and confrontation with the United States and the Israeli authorities would further intensify.

Third, the PLO continued to pursue the peace strategy, but it did not give up its principled position.

The PLO continued to abide by the resolution of the 1988 Algiers meeting on the issues of recognizing Israel, accepting the UN Security Council's Resolutions No. 242 and No. 338, and condemning terrorism. Recently, as a PLO guerrilla force raided an Israeli beach, the United States threatened to suspend the dialogue with the PLO if the PLO leadership did not condemn this "terrorist action" and punish those responsible for this action. The PLO reiterated its position of pursuing the peace strategy and issued a statement on opposing the method of "taking military action against civilians," and opposing the suspension of dialogue between the PLO and the United States; but at the same time, it also stated that the PLO would not give up the right to carry out legal armed struggle. Recently, the PLO held a meeting in Baghdad and studied the actions it would take under the new situation. The PLO called for strengthening Arab unity and reinforcing the uprising struggle of the

people in the occupied areas. It also called on all peace-loving nations and forces in the world to manage to check the escalation of violence in the Middle East region.

Fourth, the Arab countries tended to take a tougher position in view of Israel's attitude.

The recent urgent summit meeting of the Arab countries disregarded the strong pressure from the United States and strongly condemned Israel's aggression, expansion, and terrorist policy in its final statement. The meeting also criticized the United States and pointed out that it should bear "fundamental responsibility" for Israel's behavior. When the meeting discussed a proposal on banning atomic, chemical, and biological weapons in the Middle East region, the participants unanimously agreed that "destruction of mass-destruction weapons" should be linked to the "fair settlement of Arab-Israeli conflicts and to both sides' equal access to technology." Because Israel could obtain advanced weapons and equipment from the United States, it maintained a certain degree of strategic superiority over the Arab countries. The Arab countries were striving to narrow the gap and to establish a "strategic balance" against Israel.

The summit meeting also pointed out that Arab national security has formed an "inseparable whole entity." Attacks on and threats against any one of the Arab countries are also attacks on and threats against Arab national security as a whole. The meeting thus decided to establish an Arab political, economic, and military joint committee to deal with the changes in the international situation. The meeting also decided to hold another Arab summit conference in Cairo next November to discuss the common political and economic strategies in the Arab world. Syrian President al-Asad, who did not attend the urgent summit meeting in Baghdad, announced that he would send his representative to attend the Arab foreign and economic ministers meeting making preparations for the Cairo summit meeting.

Obviously, as both the Arab side and the Israeli side have taken a tougher attitude, in particular, with Israel's Government turning to the right, a new tense situation that had not been seen since 1982 appeared in the Middle East region. If no political breakthrough is made, it will be hard to avoid the escalation of violence. It is possible that some local armed conflicts and raids will happen. Some opinion media in the Arab world and in the West were worried that a new war may break out in the Middle East, and this danger cannot be underestimated.

On the other hand, there also exist certain factors restraining the outbreak of a large-scale Middle East war, and they must not be neglected either.

First, the ruling foundation of the Israeli authorities has been greatly weakened, and domestic political and economic crises in Israel have become rather serious. Moreover, Israel has been bogged down in a more seriously isolated position in the international community. After

the people in the occupied areas staged uprisings, differences of opinion appeared in Israel on the question of how to handle the occupied areas, and a profound split was brought about. Although rightist forces still held the upper hand, more and more people in various social circles, including some in the military, agreed to seek certain solutions through negotiations. Two days after the new cabinet assumed power, 900,000 workers staged a 24-hour strike to demand wage increases. This paralyzed the activities of all important government institutions. This event indicated that the new cabinet would have to deal not only with the Palestinian people in the occupied areas. The 700,000 Arab people living in Israel organized protest activities and staged demonstrations from time to time. In addition, there also existed differences on concrete political issues between various parties which supported the new cabinet. The Moledet Party held two seats in the National Assembly, and it opposed the holding of elections in the occupied areas. It threatened that if Shamir did this, it would withdraw its support for the new cabinet. Therefore, some people predicted that the new cabinet would be a short-lived one as it was facing a grim situation inside and outside. In these circumstances, if the Shamir regime launches a large-scale war against the Arab countries, it will certainly face greater risks and will be attacked from the front and rear.

Second, the United States and the Soviet Union now both attend to European affairs, and they hope that turbulence will not occur in the Middle East. The basic U.S. position was to take Israel under its wing, but proceeding from its strategic interests, it also required Israel to enter into talks with the Palestinian people and did not support Israel's plan to go to war. U.S. Secretary of State Baker recently mentioned again the plan to promote the Israel-Palestinian talks, and required the Israeli side to make "necessary compromises" on the issue of holding talks. The Jewish people in the United States also changed their attitude toward Israel, and some major Jewish organizations demanded that Israel hold talks with the Palestinian people. Neither the United States nor the Soviet Union agreed with Israel's plan to resettle the new immigrants in the occupied areas. Gorbachev recently pointed out that if Israel resettles more Jewish immigrants from the Soviet Union in the occupied areas, the Soviet Union will restrict the number of Jewish people allowed to emigrate to Israel. The West European countries also urged Israel to settle the Palestinian issue through talks.

Third, the Arab side persisted in seeking comprehensive and fair settlement of the Arab-Israeli conflicts through peaceful talks. As the Arab nations increase their unity and strengthen their defense, they will play a role in containing belligerent forces in Israel. Some experts in the United States held that, as both Israel and the Arab nations possess mass-destruction weapons, this made it possible to "avoid the outbreak of another Middle East war," because in such a war Israel will have to pay "extremely heavy costs no matter whether it triumphs or is defeated."

The Middle East is one of the world's hot spots of regional conflicts. The contradictions in this region are sharp and complicated, and the situation there is changeable and unpredictable. Therefore, it is hard for people to accurately foresee situational developments there. We need to closely observe the development of the Middle East situation.

## EAST EUROPE

### Albania Responds to Changing Global Situation

HK0908081690 Beijing SHIJIE ZHISHI [WORLD KNOWLEDGE] in Chinese No 14, 16 Jul 90 pp 19-21

[Article by Wang Hongqi (3769 3163 6386): "Albania Is Changing"]

[Text] In the open world of today, it is hard to keep a closed land. Changes now have also occurred in Albania, which stuck to its own way for so many years. Alia, who succeeded Hoxha as first secretary of the Workers Party Central Committee, eventually began to carry out political and economic reforms, to develop foreign relations with all types of countries, and to expand Albania's contact with the outside world.

### The Pressing Situation

Last year's international situation, especially the drastic changes in neighboring East European countries, had a great impact on Albania. When changes occurred in East European countries one after another like the fall of dominos, Western opinion kept a close watch on Albania and exerted great pressure on it by attacking human rights conditions there. Even West Germany, which was once Albania's "best friend," also became lukewarm toward Albania. After the New Democratic Party rose to power in Greece, a country neighboring Albania, demonstrations were staged several times in Athens to protest against Albania's discrimination against the people of Greek origin in Albania. Leka, son of the former king who has been in exile for many years in South Africa, also took advantage of this opportunity to carry out activities to oppose the current Albanian Government and restore the old dynasty. Since last December, he has actively canvassed among overseas Albanian nationals in Europe and the United States. He met with the press, issued communiques, prepared for the establishment of a broadcasting station aimed at Albania, and even flew propaganda balloons to Albania.

At home, in more than 40 years under Hoxha's leadership, Albania's economy developed very slowly. After becoming the party's first secretary in 1985, Alia declared that he would resolutely follow Hoxha's line, and made only minor revisions and adjustments in the established policies. Economic stagnation and political ossification made many people ardently hope for changes. Alia recently openly acknowledged, "Albania is facing increased and tremendous political, economic, and military pressure."

### Being on Guard and Making Changes

When facing such pressure, the Albanian Workers Party successively held the eighth, ninth, and 10th plenary sessions of the Central Committee in the second half of last year and in the first few months of this year, and adopted a series of measures for guarding against outside influences and making some internal changes.

The three Central Committee plenary sessions stressed the need to strengthen the party's leadership and construction in the political field and pointed out the necessity of "drawing a lesson from the events in Eastern Europe" in order to prevent similar things from appearing in Albania. The party decided to make no concession in the ideological field to the bourgeoisie, not to give up public ownership, not to accept the concept of political pluralization, and to raise the ideological consciousness of party rank and file and the masses.

A noticeable point was that the three Central Committee plenary sessions adopted a series of reform measures. In particular, the 10th plenary sessions and the subsequent seventh session of the People's Assembly adopted a comprehensive program for political, legal, economic, and diplomatic reforms.

**Political reforms.** Alia said that Albania's democratic characteristics are gradually and continuously increasing, and the process of democratization is irreversible. However, Albania will never accept the French or British model of democracy.

The Albanian Workers Party decided that the party's grassroots organizations would hold open meetings, with nonparty people being allowed to attend such meetings; that the leading bodies in factories, institutions, and schools would be elected; that the laborer collectives with the right of election would also have the right to dismiss cadres from office; that a competition mechanism would be introduced for the selection of cadres and professionals (especially in scientific research, teaching, cultural, and journalistic institutions); that a limited office tenure would be set for cadres; that the procedures for electing the power organs would be perfected, with a system of secret balloting and a larger number of candidates than the number of the elected being adopted inside the party; and that workers' supervision would be strengthened and the struggle against bureaucratism intensified.

**Legal reforms.** In light of the decision of the ninth plenary session of the party Central Committee, the People's Assembly made a resolution to revise the criminal law and perfect the judicial system. As for revision of the criminal law, it was decided to set a period of validity for amnesty, criminal responsibility, and penalty execution; the number of capital crimes was reduced from 34 to 11, and capital punishment would not be meted out to women; sneaking out of the country illegally was not considered treason, and the article on the crime of treason was revised; establishing joint ventures with foreign companies and contracting foreign loans

were no longer considered treason; if Albanian citizens raise the demand, they will have the right to get a passport to go abroad; it was decided to lift the ban on religious propaganda, and citizens would enjoy the freedom of religious belief. To improve the judicial system, it was decided to reestablish the Ministry of Justice, to establish a lawyer system, to expand the citizens' rights to be protected and defended, to stop the power of trial of the neighborhood courts in towns and turn them into social organizations for mediating civil disputes.

**Economic reforms.** The People's Assembly enacted seven laws (including the enterprise law and the state budget law), which included a package of reform measures: To expand the authority of grassroots units and enterprises in handling production, distribution, import and export business, and routine business operation; to conduct independent accounting in the enterprises; to strengthen the banks' supervisory and guiding role for the operation of the enterprises and to conduct independent accounting in the banks; to improve the wage system by linking the workers' income to the enterprise profits, fixing output quotas on a contracted basis, and adopting such new remuneration forms as piece wages and bonuses for surplus output; to improve the price system and use the price lever to promote production development; to flexibly adjust the retail prices of various commodities; to cut down to a smaller size the production units in the countryside and encourage rural collectives to keep their own livestock and vegetable gardens and to fix prices for their own farm and animal products.

**Diplomatic reforms.** At the 10th plenary session of the Central Committee, Alia stressed that it is necessary to assume a new attitude toward the changes occurring in the world and in Europe. He said that there are two options to be selected. One is to close the country, and the other is to hold dialogue with the external world and carry out extensive contacts and talks. Albania should select the latter.

For this reason, Albania changed its previous policy of "never establishing any relations with the two imperialist superpowers, the United States and the Soviet Union," and expressed its willingness to restore diplomatic relations with them both. Albania also changed its viewpoint that the European Community was "another superpower" and expressed its willingness to establish diplomatic relations and to come into contact with it. Albania also changed its approach to the European Security Conference and expressed its willingness to join the integration process of European security and cooperation and to attend the relevant meetings. Albania held that the changes in the other East European countries were their internal affairs, and indicated that Albania still hoped to develop friendly relations with them. It held that all countries should show reciprocal friendship to each other, no matter what social systems they pursue.

### The New Atmosphere in Tirana

The flexible and pragmatic attitude showed by Alia toward reform won extensive support among the people. In the two months after the 10th plenary session of the Central Committee, a new atmosphere appeared in Tirana.

In mid-May, UN Secretary General Javier Perez de Cuellar made his first visit to Tirana, and reporters from the United States, Britain, the Soviet Union, and 10 other countries were also invited to cover the event for the first time in Tirana.

In late May, U.S. Congressman Lantos became the first senior U.S. official to visit Albania, and he conveyed messages between Bush and Alia for the establishment of diplomatic relations between the two countries. The first energy minister meeting of the Balkan countries was held in Tirana, and this was the first multilateral ministerial-level meeting held in Albania. Then, an Italian parliamentary delegation's visit led to the eventual settlement of the four-and-a-half-year-long case in which six Albanian citizens sought "political asylum" in the Italian Embassy.

In early June, Albania for the first time attended the meeting of the Human Rights Committee of the European Security Conference in the capacity of an observer.

Then, an Albanian official met with Soviet Foreign Minister Shevardnadze in Copenhagen, and this was the first open and official contact between Albanian and Soviet officials in the past nearly 30 years. The two sides discussed the restoration of diplomatic relations between the two countries.

In mid-June, Albania for the first time applied to join the Bank for International Settlements.

In late June, Carcani, chairman of the Council of Ministers, visited Turkey, and this was the first time an Albanian Government leader made an open foreign trip in the past nearly 20 years.

Obvious changes have also occurred in the political life and in the economic field in the last two months.

For the first time, the People's Assembly elected a nonparty figure to be president of the Supreme Court. News reports were strengthened. Thinking in the circles of literature and art became more lively. The authorities no longer interfered in religious activities within families. Restrictions on issuing passports and visas were relaxed. According to the Albanian News Agency, in the last two months, the Ministry of Internal Affairs issued passports to 6,200 citizens, and 13,500 foreigners were allowed to enter Albania to visit relatives or for other purposes. The economic reform measures have also been put into practice and have achieved marked results in raising people's work enthusiasm. In a short period of less than two months, the rural private economy has been restored in an all-around way, and free markets have been established.

However, as Albania stuck to its old rules for a very long time, some people hold a different attitude toward the process of democracy and the changes. As the party organ ZERI I POPULLIT pointed out, they "thought fondly of the past," acted hesitantly, had misgivings and concerns, and even tried to undermine reform. On the other hand, some people held a radical attitude and hoped for "runaway" reforms and changes. Alia said, "Reform will certainly encounter resistance, and pressure will come from those who do not understand the development of the situation and also from those who try hard to undermine socialism. Therefore, we must never forget class struggle in these aspects." Albanian Foreign Minister Malile stressed that the process of democracy in Albania should be "gradual," because "haste makes waste."



## Developments in New Civil Service System

### Vice Minister of Personnel Comments

90CM0079A Beijing LIAOWANG [OUTLOOK]  
in Chinese No 11, 12 Mar 90 pp 14-15

[Article by Yao Lishi (6008 0500 4258): "Continuing To Actively and Safely Implement the Civil Service System: An Interview With Vice Minister of Personnel Cheng Lianchang"]

[Text] "China will continue to implement the state civil service system actively, safely, and in a planned way." When State Vice Minister of Personnel Cheng Lianchang [4453 6647 2490] was recently interviewed by a reporter of this journal, he pointed out that the civil service system is a good system, and is very beneficial to carrying out the party's cadre line, guidelines, and policies, promoting construction of honest government, overcoming bureaucratism, improving the work efficiency of state organs, stabilizing the ranks, and strengthening cadre's scientific management.

### An Important Element of Personnel System Reform

Vice Minister Cheng Lianchang reviewed the course of reform of China's personnel system and deliberations on China's civil service system. He stated that for a long time, China's personnel system and personnel management work had formed the party's correct line, guidelines, policies, and various systems and methods of cadre management. During the period of the revolutionary war and the subsequent period of socialist revolution and construction, our party, based on the tasks and needs of different periods, trained and appointed a large number of cadres, and these played their proper role in China's revolution and construction. During the Cultural Revolution, our party's cadre line was severely disrupted and destroyed, so much so that it was only after the Third Plenary Session of the 11th CPC Central Committee that we were able to eliminate disruption and return to correctness, and recovered the party's glorious tradition. At the same time, in accordance with Comrade Deng Xiaoping's series of important instructions concerning cadre work and personnel system reform, we performed a large amount of work in the area of personnel system reform, and achieved marked results.

Cheng Lianchang stated that as reform and opening develop in depth, it is necessary to implement deeper reform of the personnel system. The series of important instructions by Comrade Deng Xiaoping concerning "destroying old conventions and boldly reforming organizational systems and personnel systems which are out of keeping with the times," and his assertion that "the key is to strengthen a system for selecting, admitting by examination, appointing and dismissing, checking, impeaching, and rotating cadres" have become the principles we conform to with regard to reform of cadres and the personnel system.

Currently, there are about 5 million cadres in central and local state administrative organs. Since 1982, when the cadre retirement system was established, we have carried out a series of probes into reform of the cadre personnel system. In 1984, based on a review of experience in reforming regional and departmental personnel systems, the CPC Central Committee's Organization Department and the former Ministry of Labor and Personnel began drafting regulations concerning state administrative organ personnel, and in 1986 the opinions of various regions and departments were solicited in the name of these two ministries. In 1987, these regulations were revised as "Provisional Regulations Concerning State Civil Servants," and new elements were added.

As an important element of political system reform, the state civil service system went through several years of broad deliberations, solicitation of opinions, and repeated revision, and, after the Seventh Plenary Session of the 12th CPC Central Committee and the 13th National Party Congress, it was formally decided to establish and implement it. The government work report of the First Session of the Seventh National People's Congress in 1988 stressed again the need to pay close attention to establishing and gradually implementing a state civil service system.

When asked about the drafting and formulation of the "Provisional Regulations Concerning State Civil Servants," Cheng Lianchang stated that, by the time the Ministry of Personnel was established in 1988, the 13th draft of the "regulations" had already been completed. After the Ministry of Personnel was established, there was further study and revision, and by April 1989 the 16th draft was already completed. After examination and approval by the State Council, in late May 1989 the Ministry of Personnel transmitted the "regulations" to each region and department and resolicited their views.

### The Principal Content of the Civil Service System

Vice Minister Cheng Lianchang stated that the civil service system was formulated in order to thoroughly carry out the party's cadre line, guidelines, policies, and principle of ability combined with political integrity, based on a review of the experience of personnel work of our party and state cadres, especially the experience of the past 10 years. It is a complete, scientific personnel management system for the personnel of state administrative organs. Its principal elements include the following:

- Adoption of a system of hiring by examination. Employment personnel of state administrative organs must be geared to the needs of society, implement public announcement of examinations, and conduct strict assessment, and enable employment units to select outstanding employees based on the political ideology, moral quality, and professional ability of the personnel examined. This kind of system of hiring by public examination has changed the former methods of centralized job placement, selective assignment,

and internal announcements, expanded the field of vision of selectors, increased transparency, and introduced a competitive system, in order to ensure the political and professional quality of the personnel of state organs and avoid unhealthy tendencies which may arise among recruited personnel.

- Implementation of a post classification system. We should carry out a scientific classification of all posts of government organs, according to the nature of the work, degree of difficulty, amount of responsibility, and qualifications for holding the post, and delineate different categories and ranks. This system of establishing positions according to responsibility, mission, and demand accommodates people according to the jobs; to use the vernacular, "one hole, one radish" [each has his own task, and there is nobody to spare], making it easy to make the best possible use of people and bring into play positive factors in various areas. At the same time, post classification may also be regarded as a basis for appointing, examining, and training cadres, and as a basis for establishing authorized strength and treatment.
- Establishment of an examination system. This combines ordinary examinations and annual examinations of civil servants, including examination of evidence of their political ideology, ability, contributions, and attitude toward their work, and paying particular attention to examination of their political manifestations. Commendations, rewards, promotions and the like are determined through examination.
- With regard to civil service promotions, implementation of standards of ability and political integrity and the principle of appointing people on their merits. Not only are political ideology, work ability, and work achievement examined; the opinions of the masses are solicited in order to avoid a situation in which the cadre promotion system is not strict, the mass base is poor, and people are appointed on the basis of favoritism.
- Implementation of a system of rewards and punishments. Necessary rewards are implemented based on civil service achievements and examination results. Those who wholeheartedly serve the people, are faithful in the discharge of their duties, and are honest in performing their official duties are rewarded, and those who neglect their duties, exploit their privileges for gain, and cause losses are punished.
- Implementation of a training system. This includes providing pre-employment training for newly employed personnel and transferred personnel and providing post qualification training for promoted personnel, as well as providing more up-to-date training for all personnel on the job.

—Implementation of an avoidance system. In order to enable civil servants to avoid being affected by unnecessary factors in performing their duties, post avoidance, official business avoidance, and regional avoidance are implemented. Post avoidance means that people with kinship ties would be avoided within a certain scope; official business avoidance means that in conducting official business, one cannot interfere in or in any way influence those issues which involve oneself or one's family; regional avoidance means that one's birthplace, place of long-term employment, and the like will be avoided as much as possible. Transfers are made whenever necessary, so that the civil servant may better carry out his duties.

—Implementation of a normal wage system for civil servants, that is, a wage system in which wages correspond to responsibilities. Based on the need for classification of positions, different levels are delineated according to the size and difficulty of the job held and the qualifications for the job, and different wages are established and duly increased according to the circumstances of the accomplishment of the task, number of years of service, contributions, and the like. This kind of duty-level wage system is more scientific and rational than former wage systems.

Vice Minister Cheng Lianchang stressed that China's civil service system is a socialist civil service system with Chinese characteristics, and differs fundamentally from the civil service systems of Western nations.

First, we require that civil servants adhere to the four basic principles and maintain political conformity with the CPC Central Committee, and we stipulate that they shall not air opinions that would damage the reputation of the government, while Western nations require civil servants to be "neutral" and stand aloof from political party and group activities. Second, China's civil service system adheres to the principle that "the party controls the cadres." Every concrete control system is formulated in accordance with the party's cadre line and policies, and when cadres at a certain level are appointed they must be tested by party organizations. The political parties and groups of Western nations, on the other hand, do not control civil officials. Third, China's civil service system requires civil servants to wholeheartedly serve the people and be honest in performing their official duties, while civil officials in the West are an independent interest group, and their relationship with the government is one of employees to employer. The last point is that we put the principle of "ability combined with political integrity" into practice with respect to civil servants, and put integrity first, while Western civil official systems do not have this requirement.

#### **More Stress on Testing and Training of Civil Servants**

Vice Minister Cheng Lianchang stated that we are now widely soliciting opinions about "regulations" and further revising them, and are testing them in six state departments: the Auditing Administration, the General

Administration of Customs, the State Statistical Bureau, the State Environmental Protection Bureau, the State Building Materials Industry Bureau, and the State Administration of Taxation. Testing units widely put the principles of open registration for examinations and equal competition into practice toward newly supplemented personnel and, through testing and checking, have selected able, outstanding people. Last year, these six testing units examined and recruited 127 persons. In addition, these six departments conducted a great deal of testing with regard to post classification.

When discussing the short- and long-term arrangements for the civil service system, Cheng Lianchang told reporters that establishing and improving the civil service system should follow a fairly long process, and preparations should be made to implement it in stages. Testing and accumulation of experience would come first, followed by implementation by central state institutions, and then expansion to the province, municipality, and autonomous region level. Preparations for testing can be made now for a few qualified provinces and municipalities.

Regarding training of civil servants, Cheng Lianchang stated that it was necessary first of all to provide cadres with regular education and training in Marxism-Leninism and Mao Zedong Thought and to constantly raise and expand their level of political theory. Next, training must develop in a directed manner in accordance with the requirements of different posts. It should integrate theory with practice and stress seeking actual results. Leaders and concerned parties at each level should attach importance to training, actively create favorable conditions, and resolve problems involving location, teaching materials, qualified teachers, costs, and the like.

Cheng Lianchang stated that the State Administration Academy is a state-level training institution established in order to implement a civil service system. At present, we are primarily using the method of training while establishing; we have already established nationwide personnel bureau chief training teams, nationwide secretary general and office director training teams, nationwide supervisory bureau chief training teams and the like.

Finally, Cheng Lianchang revealed to our reporters that he was continuing to solicit opinions regarding the "Provisional Regulations Concerning State Civil Servants," and would later submit a report to the State Council for examination and approval and strive to promulgate the report this year. Several individual laws and regulations on checking, testing, appointment and dismissal, promotion, and avoidance of concerned civil servants are currently being intensified and revised, and will be submitted for approval as they become ready.

### Recruitment by Examination

90CM0079B Beijing LIAOWANG [OUTLOOK]  
in Chinese No 11, 12 Mar 90 pp 16-17

[Article by Nan Si (0589 1835): "Attempt To Recruit Civil Servants by Examination"]

[Text] Since last year, through arrangements by the State Ministry of Personnel and other concerned quarters, six departments—the Ministry of Supervision, Auditing Administration, State Statistical Bureau, State Environmental Protection Bureau, State Building Materials Industry Bureau, and State Administration of Taxation—have tried out the method of recruiting civil servants by examination, equal competition, and recruitment based on merit. They have accumulated a great deal of experience for state administrative organs to use from now on in expanding the system of recruitment by examination.

In China, the system for recruiting officials by examination goes back a long time. The imperial examination system which emerged during the Sui and Tang periods was the most advanced and most perfect state public official selection system in the world at that time. However, China's system of recruiting civil servants by examination at the end of the 1980's is the product of the historical trend of reform and the profound changes which have occurred in China's personnel management system.

The recruitment of cadres is called the "entrance" to personnel management. In the past, there were only two ways to pass through this "entrance": The first was unified assignment, including recruitment of university graduates and cadres transferring from the military, and the second was being recommended for selection. These two ways were suited to the method of highly centralized directed assignment and they played a positive role. However, the scope, standards, and procedure of personnel selection are inadequately unified and standardized, they lack transparency, and it is difficult to fundamentally resist unhealthy tendencies in selecting personnel. Particularly under the new circumstances characterized by the development in depth of reform and opening, it seems even more unsuitable.

In 1987 and 1988, the CPC Central Committee decided to strengthen 13 departments, including politics and law, industry and commerce, banking, and taxes, and simultaneously with adjusting and resolving, to publicly recruit cadres. According to later incomplete statistics, this large-scale recruitment of cadres by examination was similar to high school admissions exams. More than 1 million people registered for the examination, and over 80,000 were recruited. In the second half of 1988, the State Environmental Protection Bureau and the Ministry of Civil Affairs also conducted public examinations to supplement their personnel.

In March of last year, six state administrative organs, led by the State Ministry of Personnel, conducted joint

recruitment by examination. Through the cooperation of the Ministry of Personnel's Examination and Recruitment Department, concerned parties planned, organized, and worked out detailed rules and regulations for implementing registration and screening of qualifications, written test sites and test monitoring, evaluation, oral testing, recruiting and the like. On 25 April, the Ministry of Personnel held a press conference and announced the news of open recruitment by examination. The public reaction was intense for a while, and 2,500 people signed up for counseling, of which over 1,300 passed the screening of qualifications and formally signed up. Based on the written exam, 350 people were selected to take the oral exam, and, through rigorous checking and screening, the six testing departments hired 127 people.

Confronting society and holding open examinations is certainly necessary. In the latter half of 1988, as soon as it was announced that the State Environmental Protection Bureau was preparing to hire 32 new employees, the leaders very quickly received more than 200 letters of recommendation and brief informal notes from various channels. The front door was shut and the back door was crowded. Therefore, the bureau leaders resolutely made a final decision to simply hold public examinations. As expected, this was effective. For one year, until the six state organs started recruiting personnel by examination, the leaders of the concerned departments had not received a single informal note. It was only when there was an open, equal, competitive mechanism that examinees were able to stand on the same starting line.

A graduate of the environmental engineering department of Qinghua University stated in an interview with a reporter at the examination registration office of the State Administration of Building Materials Industry, "I have gone to Shenzhen, and have also looked for work in other departments in Beijing, but many companies did not need anyone. Remarks about going to the back door to look for work are very widespread in society. In my opinion, this recruitment by examination by six state organs is a very good opportunity." A summary report by the Ministry of Personnel's Examination and Recruitment Department also stated: "The position requirements and number of positions open, the conditions for entering for examination, subjects of the examination, the time and place of the examination, as well as the results of the written and oral exams, the list of names of candidates for recruitment, and the like should all be announced publicly; and everyone who meets the conditions for entering for examination should receive equal treatment." Vice Minister of Personnel Cheng Lianchang serves as inspector general for examination and recruitment, and a committee for supervising examination and recruitment made up of inspecting offices of the six departments as well as responsible comrades and expert scholars in related areas provides strict supervision over examinations. The daughter of a veteran comrade in the State Statistical Bureau had a total score on the written exam which was only 1.7 points below the

cutoff score, and was still eliminated. A State Administration of Taxation examinee had already passed the written and oral exams, but concerned parties objected to his poor performance in his job assignment upon graduation the year before last. Even though people interceded on his behalf several times thereafter, he has not been hired. A reporter from ZHONGGUO FUNU BAO [CHINESE WOMEN WEEKLY] paid especially close attention in interviews to whether there were any units THAT did not accept female comrades; the reply of workers was that examinees received equal treatment without discrimination.

Only if they begin at the same starting line and compete on equal terms can personnel with both ability and political integrity come to the forefront. According to examination and analysis of the 127 who have already successfully gone through the recruitment procedure of the six departments, all are outstanding among the vast numbers of examinees with respect to political and professional quality. Of these 127, 116, or 91.8 percent, are party and [Communist Youth] League members, and 50, or 40 percent, have received various commendations. Some 107, or 85 percent, have graduate or undergraduate records; and, of these, 16, or 15 percent, have university records, and 38 have high-, middle-, or elementary-level technical titles. Eleven of them have received scientific and technical progress awards and scientific and technical achievement awards.

After these people assumed their posts, they approached the work with an entirely new attitude. State Environmental Protection Bureau Director Qu Geping [2575 2706 1627] commented: "The work of department and office chiefs promoted according to civil service promotion requirements has been extremely outstanding, and civil servants recruited by examination have been of high quality and strong ability."

This job of recruiting civil servants by examination has had both joys and sorrows. Because this new system is basically conducted under the old management system, it is hard to prevent friction and disharmony from occurring between the two systems.

Due to urban population control, cadre plan control, and the like, recruitment by examination is restricted first of all as to its target and scope. For example, persons entering for examination must satisfy "prerequisites" such as being on the job, having registered permanent residence in Beijing Municipality, and having an academic record at a state-accredited university or college. Thus, people from outside the province or municipality are excluded. According to a survey, through several fairly large-scale screenings, prior to joint recruitment by examination, the ratio of candidates to openings was 11:1. Concerned persons believe that when the ratio reaches 15:1 or 20:1, it will be even easier to select outstanding talent.

In the course of switching from the old to the new system, the phenomenon of "possession of talented



personnel by the unit" is widespread, and this has caused another problem for examination and recruiting: that of assuming the post. In this examination and recruitment by six departments, 76 cadres currently occupying posts were recruited. In the case of 21 of these cadres, or 27.7 percent of the total number, coordination and arbitration with their current units was required to obtain their release. Even though concerned parties rushed about in all directions trying to obtain the support of the Beijing Municipal Personnel Bureau, Beijing Personnel Exchange Center, All-China Personnel Exchange Center, the responsible departments of the candidates' units, and elsewhere, they resolved the recruitment problems of only 10 recruits, while the other 11 are still confronted with obstacles which are hard to surmount. Resolving these problems will require a complete reform of the cadre personnel system.

Even though national recruitment of civil servants by examination may still meet with various difficulties, the outlook is good. Director Dai Guangqian [2071 0342 0467] of the Ministry of Personnel's Examination and Recruitment Department told reporters that this year, examination and recruitment work will be aimed at long-term construction of a system for recruitment by examination, taking account of both particular points and entire areas, and providing guidance to different types of areas, thereby enabling the examination system to move steadily forward.

### Training Called Basic Task

90CM0079C Beijing LIAOWANG [OUTLOOK]  
in Chinese No 11, 12 Mar 90 p 17

[Article by Cheng Yinsheng (2052 6892 3932): "Leading Training Lays Good Foundation"]

[Text] China, in the course of reforming its cadre personnel system, has given training an important place in the civil service system it is going to implement. Training is now regarded as a basic, leading task, and has already been put on the agenda.

China currently has more than 2,000 training institutions, primarily for economic and administrative management, with a full-time teaching force of 50,000 and a large number of part-time teachers. The State Administration Academy, which is regarded as the training base for China's future high-level civil servants, is holding classes while preparations are made for its establishment. Last year it held several high-level classes in personnel matters, supervision, document secrecy, and the like, and a total of 250 bureau-level government officials from various provinces, autonomous regions, municipalities under the direct jurisdiction of the central government, cities with province-level economic decisionmaking authority, and ministries and commissions of the State Council received a month of training, primarily concerning the party's line, principles, and policies, as well as administrative and managerial knowledge and skills.

The China High-Level Civil Servant Training Center, which is subordinate to the Ministry of Personnel, is another important training base. In the past year, it has trained nearly 200 leading officials of the personnel departments of concerned State Council ministries and commissions and large and medium-sized enterprises, of whom one-fourth are bureau-level leaders. In addition, two graduating classes of the All-China No. 1 Labor Personnel Academy have already been assigned to labor personnel departments at various levels throughout China. These three bases, in addition to having a limited number of full-time teachers, also have a number of part-time teachers with abundant government work experience, including ministers and bureau chiefs. Looking at China as a whole, cadre training is active in Tianjin, Hebei, Shandong, Jilin, Jiangxi, Inner Mongolia and elsewhere; of these, Hebei Province has held four training classes for county magistrates, in which almost all of Hebei's county magistrates have received training in rotation.

Now, concerned officials of the State Ministry of Personnel have put forward an overall concept for future civil servant training.

First, it should revolve around establishing a system of laws and regulations pertaining to civil servants, centered on civil service law, formulating and perfecting various laws and regulations pertaining to the training of civil servants, and ensuring that civil servant training gradually becomes scientific, systematic, and standardized. The top-priority task is to put forward the "Provisional Regulations Concerning Training of State Civil Servants" as one of the sets of laws and regulations of the "Provisional Regulations Concerning State Civil Servants." The basic idea of this stipulation is to use Marxism-Leninism and Mao Zedong Thought to practically and realistically reflect the regular pattern of training, define the role of training in the civil service system, clarify the civil service training requirements of state administration organs, and create clear and feasible stipulations for training classification, training mechanism, training principles, training expenses, educational work, organizational control, and the like.

Second, a mid- to long-term training plan will be formulated, in order to ensure macrocontrol by the state of training of the personnel of the administrative organs. This plan must be coordinated with state economic and social development, with cadre personnel system reform, and with the development prospects for training of various types and levels of cadres contingents. To this end, the following three tasks are currently being undertaken. The first is to conduct a sampling survey, and make an objective assessment of the current situation of training and education being received by the personnel of the administrative organs. According to a random sampling survey of certain cities, 70 percent of section-level cadres have university or college degrees, but 100 percent have not studied the administrative management know-how that government officials must have. The second task is analysis of requirements. Based on

this analysis, in order to adapt to the needs of economic society and government management, which develop day by day, government officials must strengthen their Marxist-Leninist philosophy, administrative and economic management know-how, and education concerning standards of behavior and honest government. The third task is synthetic analysis, applying the principle of systems engineering to combine static model surveys, sample surveys, and dynamic analysis, and setting forth training objectives, long-term development prospects, and implementation measures.

Third, a new, socialized, authoritative State Administration Academy will be established. At the same time, existing training organs and bases will be used as much as possible, less money will be spent to do more work, and an effort will be made to improve the quality of education and increase returns on training.

Fourth, attention will be paid to related training work prior to implementation of the civil service system. Future civil servant training should be strictly implemented by stages, such as introductory (elementary) training, transfer training, and on-the-job training in rotation. Most ministries, commissions, provinces, and municipalities believe that paying attention now to post training will have the effect of promoting the improvement of the quality of cadre contingents within a reasonable period of time, and will help interconnect guiding ideology, training principles, and curriculum with future civil servant training.

#### **Political Reasons Seen Behind Hu Jiwei Dismissal**

90CM0161A Hong Kong CHAO LIU [TIDE]  
in Chinese No 38, 15 Apr 90 pp 15-18

[Article by Chien Sui (6929 4482): "Hu Jiwei Advocates Freedom of the Press and Is Forced From Office"]

[Text] [Box, p. 15]

#### **Biographical Overview**

**Birth:** 1916, Weiyuan County, Sichuan

**Education:** Studied at Huaxi University and Sichuan University

**Entered party:** 1937

**Experience:** 1937-1948: SICHUAN RIBAO editor; TONGSU WENYI chief editor; Shaanxi-Gansu-Ningxia Border Area BIANQU QUNZHONG BAO editor in chief; JIEFANG RIBAO director of news gathering; XINHUA Northwestern Front regional director

1949-1952: Xian QUNZHONG RIBAO assistant editor, assistant publisher; XINHUA Northwestern Region editor in chief; Xian People's Broadcasting Station editor in chief

1952-1966: RENMIN RIBAO assistant editor in chief

1978-1985: RENMIN RIBAO editor in chief, publisher

1983-1989: Standing Committee of the National People's Congress and vice chairman of the Education, Science, Culture, and Public Health Committee [end box]

In mid-March the Chinese Communists convened the Standing Committee of the National People's Congress [NPC] and relieved Hu Jiwei (5170 4921 0251) of his position on the Standing Committee and his position as vice chairman of the Education, Science, Culture, and Public Health Committee.

#### **He Advocated Total Reform and Sympathized With the Student Demands**

Hu Jiwei is the first high-ranking cadre of the NPC Standing Committee (the equivalent of a minister) to be removed since the 4 June "Beijing massacre." NPC spokesman Yao Guang (1202 1639) said that the unit from which Hu Jiwei was originally elected, Sichuan Province, was dropped from the NPC, so his position on the Standing Committee also had to be eliminated.

Actually the Chinese Communist ruling clique decided to remove Hu Jiwei (Deng Xiaoping made the final determination), and then the Organization Department of the Central Committee directed that Sichuan be removed from the NPC.

When Yao Guang announced the news of Hu Jiwei's removal, he said Hu "was guilty of supporting and participating in the turmoil and usurped authority." He specifically brought up that Hu "had a hand in, and in fact revised" Beijing University students' "Declaration to Our National Compatriots." When the petition to convene an emergency meeting of the Standing Committee was initiated, some committee members who did not support it were on the list. The last charge was fabricated.

*Besides initiating the petition [calling for the] convening of an emergency meeting of the NPC Standing Committee, there were three important reasons for Hu Jiwei's dismissal. The first was his call for total reform of the news system with real freedom of the press, and his support of the Shekou newspaper's guidance in reform activity. The second was his sympathy for the students' peaceful demands and his appeal for the Chinese Communists to use peaceful means to resolve the student uprising and his disagreement with using martial law pressure to deal with the students. The third was his support of several of Hu Yaobang's and Zhao Ziyang's reform concepts.*

#### **His Initiating the 21 May Petition Provoked Li Peng's Anger**

The "21 May petition" refers to the students' peaceful demands regarding the grim situation brought about by the 20 May declaration of martial law, the proposal that an emergency meeting of the NPC Standing Committee

be convened around 24-26 May, and the request that "legal means be sought to properly resolve the present Chinese crisis."

Hu Jiwei initiated this joint petition and entrusted it to the liaison of the Beijing "Multidirectional Social Development Research Institute" directed by Cao Siyuan [2580 1835 3293].

Before 21 May there were two groups in the NPC Standing Committee who called on 17 and 18 May for an emergency meeting of the NPC to be convened to discuss the situation.

According to the Chinese Communist Constitution and NPC regulations, the NPC Standing Committee is empowered to initiate a joint petition to propose the convening of an emergency meeting. But, because the joint petition activity was initiated after Deng Xiaoping had declared martial law and the student representatives had also demanded the convening of an emergency meeting of the NPC Standing Committee to recall Li Peng and Yang Shangkun, Li and Yang hated Hu Jiwei. After "4 June," Li and Yang incited some members of the Standing Committee to settle accounts with Hu Jiwei. His recent dismissal from the NPC was settling accounts after the fact with someone with whom they disagreed. It is a method of executing one as a warning to hundreds, which is often used to maintain "one-man rule." The attack on Hu Jiwei also makes it obvious that Deng Xiaoping, Yang Shangkun, and Li Peng do not want the NPC to become involved in resolving the student movement and it actually strips the NPC Standing Committee of its political authority and institutes a military dictatorship.

#### **Zhang Chengxian and Song Rufen Castigate Hu Jiwei**

After the 4 June "Beijing massacre," the situation took a dramatic turn. Some opportunist politicians like Yang Ligong (2799 4539 0501) and Song Rufen [1345 3067 2781] quickly tried to ingratiate themselves with Deng Xiaoping and Li Peng by castigating Hu Jiwei and Zhao Ziyang, using all the Cultural Revolution era fabricated charges. Spineless faddists among literary people, such as Liu Danian [0491 1129 1628] did not acknowledge that they signed their names.

When it came to settling accounts with Hu Jiwei, Zhang Chengxian [1728 2110 0341], and Song Rufen put on an especially ferocious display, exactly like the scoundrels of the "campaign to eliminate counterrevolutionaries," the "antirightist campaign," and the Cultural Revolution.

Zhang Chengxian, who is 75 this year, was vice minister of propaganda for the northern region. In June 1966 he accompanied Li Xuefeng [2621 7185 1496] to the Beijing municipal party committee as secretary. In the last 10 years he has been vice minister of the State Scientific and Technological Commission, vice minister of education, and vice chairman of the Education, Science, and Public Health Committee. In the settling of accounts

with Hu Jiwei he gave a long speech, saying that the "21 May petition" was a "futile attempt to use the NPC to abolish martial law and overthrow the government."

Song Rufen said that he was "convinced that plotting of the 21 May petition was not an isolated incident, but it was a component of the conspiratorial activity of the organizers of the turmoil."

Song Rufen, who is 68 this year, is an extreme leftist "Yuan Mu [5913 2606] type" cadre. After 4 June he had a reputation for giving people a hard time. He has worked for a long time on the Beijing municipal committee, is a trusted follower of Peng Zhen [1756 4176], and has been secretary of the Seventh Beijing Municipal District Committee, vice director of the municipal committee's local industry department, vice chairman of the Beijing Municipal Planning Committee, as well as chairman of the municipal committee and vice chairman of the NPC Legal System Working Committee.

#### **Without Freedom of the Press There Can Be No True Stability**

Hu Jiwei worked for a long time in the Chinese Communist Party newspaper system. He was assistant editor in chief, editor in chief, and publisher of RENMIN RIBAO, and has a very clear understanding of the Chinese Communist policy of controlling the news. In recent years he has had second thoughts and has strongly advocated total reform of the news system and called for freedom of the press.

*In a May 1989 Shanghai SHIJIE JINGJI DAOBAO article entitled "Without Freedom of the Press There Can Be No True Stability" Hu Jiwei opposed devising the false reason of "stability and unity" to limit freedom of the press. He believes that without freedom of the press dictatorial authorities can create social instability.*

This article was published at the very time that the students' peaceful demands were reaching their peak in Beijing, Shanghai, and other places, and Jiang Zemin was pressuring SHIJIE JINGJI DAOBAO because it published a summary of the minutes of a conference mourning Hu Yaobang. Later, the newspaper was forced to cease publication, and publication of this article was cited as one of the "liberal" crimes of the newspaper.

Before the student movement, Hu Jiwei commended the press reforms of Guangdong's Shenzhen SHEKOU TONGXUN BAO.

#### **He Advocated Pursuing Political Reform and Establishing Democratic Authority**

One reason that Hu Jiwei and Hu Yaobang had very close relations beginning in 1978 was that their views on reform were very close.

In May 1978, Hu Yaobang came out with his "practice is the sole criterion of truth" doctrine in opposition to the "two whatevers" of Chinese Communist Central Committee Chairman Hua Guofeng and Vice Chairman

Wang Dongxing [3076 2639 5281] and recommended adapting the words of Marx and Mao Zedong and supplementing and revising Marxism. This polemic provided the "theoretical basis" for later overturning political cases of the Cultural Revolution and the antirightist campaign.

Hu Jiwei, who was editor in chief of RENMIN RIBAO at the time, totally supported Hu Yaobang and launched a counterattack on the "two whatevers."

Later, Hu Jiwei, Yu Guangyuan [0060 0342 6678], Gong Yuzhi [7895 5148 0037], Wang Ruoshui [3769 5387 3055], Qin Chuan [4440 1557], Su Shaozhi [5685 4801 2535], Wu Mingyu [0702 2494 3842], and Sun Zhangjiang [1327 7022 3068] formed the radical reform faction and advocated reforming the political system simultaneously with the reform of the economic system, establishing a democratic system, and totally wiping out the effects of the autocracy.

Last March, in a speech given in a subcommittee of the NPC, Hu Jiwei criticized Li Peng's "Government Work Report," saying that the political system required further reform, and "not mentioning revision of the Constitution or constitutional oversight was a major shortcoming."

*Hu Jiwei believes that political reform must "proceed at the same rate" as economic reform, that a constitutional revision study committee should be formed to look into revising the Constitution, establishing a democratic system, and safeguarding the rights of the people. He said, "Establishing democracy should be the nucleus of political reform. Only when the people have a systematic guarantee of fully exercising their right to know, their right to discuss politics, their right to participate in the government, and their right to oversee [the government], can the whole people pool their wisdom and their efforts to get over the difficulties."*

This speech, coupled with the "21 May petition," made Li Peng hate Hu Jiwei even more.

In the latter part of April last year when Hu Jiwei participated in Beijing's ZHONGGUO QINGNIAN BAO's written colloquium commemorating the 70th anniversary of "May 4th," he called for the establishment of democratic authority and the elimination of despotism. He believes that democratic authority should be established by making everyone equal before the law and democratizing decisionmaking and making it scientific. Decisionmaking and administration should be made public and the emergence of leaders and changes [in the leadership] should conform to legal democratic procedures, and root out one-man rule, patriarchy, and lifetime tenure. He especially stressed the need to "guard against the stubbornly entrenched dominant position of feudal dictatorship cloaked as revolution" and the need for rule by men to give way to rule by law. He opposes the "new authoritarianism."

Hu Jiwei's article was aimed at Deng Xiaoping's patriarchal authority. Li Peng succeeded in persecuting Hu Jiwei after "4 June" because Deng Xiaoping supported settling accounts with Hu after the fact.

*Not long ago Deng Xiaoping said, "Hu Jiwei was the behind-the-scenes boss of Liu Binyan at RENMIN RIBAO. How can that kind of rampant bourgeois liberalism represent the people of Sichuan?" Hu's removal was thus "sealed."*

The Beijing University students' "Declaration to Our National Compatriots" of last 20 May also criticized Deng Xiaoping's autocracy. Now the Chinese Communist ruling clique says that Hu Jiwei "supported and revised" this letter and wantonly added the crime of "supporting and participating in the turmoil."

#### Democracy Movement's Propaganda Ship Founders

HK2006102390 Guangzhou YANGCHENG WANBAO in Chinese 13 Jun 90 p 3

[Article by Shun Zhi (5293 0037): "The 'Elite' Sold Their 'Goddess'"]

[Text] In this world we live in, when the political "climate" changes, there are always some people who suddenly jump from a dark corner for a show, pretending to be "heroes" and "leaders" when they are only buffoons, swindlers, opportunists, or careerists. These detestable and pitiful characters include Yan Jiaqi, the "scholar who is good at hurling 'bombs'"; Wuer Kaixi, who claims that he has no talent for education; Wang Runnan, who calls himself head of the soldiers of "rock"; Chen Yizi, who calls himself a theorist on "reform"; and the like.

When one sees their various traitorous activities abroad and their deeds of downright political hooliganism, he will know that they are so ardent in rebelling against their motherland and so zealous in betraying their souls that they are really scary; no to mention their crazy show and their vile conspiracies in Beijing during the late spring and early summer of last year.

During last September, with the connivance and tacit consent of their foreign lords, this handful of fugitive criminals, who are wanted by the state, took great pains and assembled 100 or so people to set up a reactionary organization in Paris called the "Federation for Democracy in China" [FDC]. Then Yan Jiaqi and his gang immediately "launched its first military operation" by publishing the FDC's anticommunist and anti-China "advocating letter" in the masthead of RENMIN RIBAO, and by counterfeiting a RENMIN RIBAO OVERSEAS EDITION as their "masterpiece." This show has fully exposed that they are vile rumormongers for personal gain and have caused dissatisfaction among fair-minded persons abroad, and that it brought on themselves the just opinions and denunciations of the world, causing great difficulties for them and making



them very passive. These "children of rumormongers" could only comfort themselves by saying that that was precisely the "tactics" they were using. After this "military operation," people have already seen that there is no truth in the mouths of this gang of liars and swindlers headed by Yan Jiaqi and Wuer Kaixi—like the lies, deceptions and frauds in the cart stolen by that gang from (Heerheis) in Aesop's Fables. And everyone scorns them.

This year, in order to eradicate their difficulties and find a way out of the blind alley, they took a new maneuver under the planning of their foreign lords by founding the so-called "Boat for China Federation." They purchased a wrecked old ship for \$400,000 from Britain, changed it into a broadcasting ship, and named it the "Goddess of Democracy." With this wrecked old ship, these "elite" of turmoil, who are called "political beggars" abroad, did not merely revert to their former rumors and blasphemy in the hope of venting their hatred for the CPC and socialist China, but also swindled large sums of U.S. dollars through this trick to enable them to lead a luxurious life in exile. For this reason, they "were all, of course, overjoyed and delighted," and put their heads together to carefully redecorate this ship, which had remained unused for over 20 years. On the front of the deck, they drew the bust of the "goddess" in red and white, and then hung 10 modernistic pictures in the rear and wrote on it the five Chinese characters "Ming Zhu Nu Shen Hao" [The Goddess of Democracy] with blue paint. At the head of the ship, they erected the 2.9-meter white wooden statue of the "goddess" so that the ship is submerged in this atmosphere. They really took great trouble!

It is said that, along with the ship's anticommunist propagation activities, they planned to hold meetings and symposiums, make "global appeals," hold a "fund-raising sale of T-shirts," and so on, in order to create an atmosphere and increase "international pressure" on China. This appeared to be a life-and-death "military operation" for them, and therefore it was understandable for Wuer Kaixi, who is scornfully called the "flying acrobat," to return from his "office" in Boston, which cost \$80,000 for decoration and equipment, and fly to Paris for the ribbon-cutting in the opening ceremony of the ship "Goddess." Almost all of those fugitives in Paris gathered at port La Rochelle and knelt before the "Goddess" to show their determination and loyalty, creating a clamor to strengthen their courage. Perhaps this gang of fellows believed that with the "Goddess" protection and with a foreign flag fluttering in the boat, their journey would be successful when the ship arrived, reviving the hope of those young ones who became hopeless and

pessimistic, and winning the favor of their reactionary lords. For this reason, Yan Jiaqi, Wuer Kaixi, and Wan Runnan had not only recorded reactionary propaganda programs for broadcasting, but decided that when they arrived in Taiwan they would board the ship to participate in counterrevolutionary propagation activities.

Nevertheless, this time Yan Jiaqi and his gang met with an adverse fate, and their "sweet" dream became mist. Originally, they had depended on the "Goddess" protection, but finally changed it into a female pirate of all vices. No sooner had the so-called "Goddess" ship departed from the French port than it was denounced internationally as a ship for pirate broadcasting. On its way, it was boycotted and blamed, and it "capsized" upon arrival in Taiwan. This so-called "anticommunist and China-restoring base" could offer no help. Not knowing which way to turn, they were "compelled," as the last resort, to scrap their broadcasting plans. These traitorous "elite" again experienced the pain when the "military operation" failed. In "great disappointment," they had to "sell the Goddess" in "the mode of an auction" to fetch some traveling expenses for the crew on their way back home. Perhaps this farce compiled and directed by themselves, who later dispersed altogether, would end in a scene in which the "elite" sold the "Goddess."

If one takes the farce, which had just begun but could not continue, as a "military operation" (or perhaps the "second military operation"), then he will find that the "Federation for Democracy in China," an anti-China and a counterrevolutionary organization, has "launched" two so-called "military operations" in less than eight months since its founding. The "first military operation" exposed themselves to the world as liars and swindlers, and the "second operation" has fully demonstrated that Yan Jiaqi and his gang are lawless fellows and stubborn reactionary elements indeed. When they started turmoil in the capital of our country, if one remembers, they shouted "rule of law" everywhere in addition to "democracy" and "freedom," treading the country's laws underfoot. This time they turned a deaf ear to relevant internationally recognized conventions, agreements, and regulations by publicly carrying out illegal and subversive pirate broadcasting activities outside the country. By their deeds, they bear witness before the world that, being so-called "warriors for democracy" or "heroes of the democratic movement," they are actually lawless and unscrupulous criminals and stubborn reactionaries.

What more should we say about this infamous gang? I think I had better quote the words of a Taiwan reader of the EUROPEAN DAILY, that is, "the good-for-nothing fellows that are not even worthy to be called scum."

## NATIONAL AFFAIRS, POLICY

### Assessment of Economic Reform in 1989

90CE0245A Chongqing GAIGE [REFORM] in Chinese  
No 3, 20 May 90 pp 50-56

[Article by the Theoretical Propaganda Department of the State Restructuring of the Economic System Commission, compiled by Lu Yonghua (7120 8673 5478): "Progress in the Reform of Economic System in 1989"]

[Text] The year 1989 was the first year in which China implemented the principles of improving economic environment, rectifying economic order, and deepening the reform. In accordance with the demand set forth at the Fifth Plenary Session of the 13th CPC Central Committee that during the improvement and rectification period, the reform should stabilize, consolidate, readjust, and improve measures which have already been introduced, all localities throughout China have gradually pushed the national economy as a whole onto a track of sustained, steady, and coordinated development while considering the improvement and rectification campaign and the deepening of the reform as the basis.

#### I. Initial Results Have Been Achieved in Increasing and Improving Macroeconomic Regulation and Control, Improving Economic Environment, and Rectifying Economic Order

To meet the demand of the development of a planned commodity economy, China has carried out in the past 10 years the initial reform of the overcentralized and stifling macroeconomic regulation and control system. This has aroused the enthusiasm of all circles including the central government, localities, departments, and enterprises and played an important role of accelerator in enlivening the economy, increasing enterprises' vitality, and bringing about economic prosperity across the country. However, there are also such problems as unduly decentralized power and ineffective macroeconomic regulation and control. Between 1987 and 1988, problems such as economic overheating, investment expansion, overextended credit scale, excessive supply of money, excessive growth of consumption funds, increasing inflation, and circulation disorder became even more prominent. In 1989, the CPC Central Committee and the State Council adopted resolute measures to enhance macroeconomic regulation and control and achieved marked results. Now economic development has begun to cool down, investment and consumption expansion is under control, money supply and credit scale are better than expected, and price increase has slowed and showed a tendency of progressive decline each month.

Improvement, rectification, and reform measures adopted in 1989 for macroeconomic regulation and control are mainly as follows:

#### 1. The reform of planned investment system and policy readjustment

A. We cleaned up projects under construction and put fixed-asset investment projects under strict target control and examination. In 1989, in accordance with the demand of the improvement and rectification campaign and the state's industrial policy, we cancelled and postponed the construction of 18,000-plus projects, which had already started or were about to start, and reduced the scale of fixed-asset investment by 67.5 billion yuan. The number of new construction projects has been reduced substantially. Statistics show that only 24,000 new construction projects were approved in 1989, a 36 percent decrease from 1988 and the lowest record in the 1980's.

B. The scale of fixed-asset investment was controlled. In 1989 the social fixed-asset investment scale of China was 410 billion yuan (400 billion yuan if based on the calculation of volume completed), a decline of near 40 billion yuan (50 billion if based on the volume completed) and about 9 percent (11 percent if based on the volume completed) from 1988. If we deduct the factor of investment depreciation caused by inflation, the actual scale of investment was even smaller.

C. The power to examine and approve construction projects was centralized at the levels of the central government, provinces, autonomous regions, and municipalities. Investment projects above 1 million yuan were examined and approved by the central and provincial governments according to state regulations on the authority of examination and approval. Projects under 1 million yuan were examined and approved by authorities designated by provincial governments.

D. According to previous regulations, the capital construction investment of kindergartens, middle and elementary schools, colleges, universities, and normal schools were excluded from the state control of social fixed-asset investment scale. Beginning in 1989, it was also put under the state control.

E. No locality, department, and unit was allowed to issue capital construction investment bonds without filing with the State Planning Commission and provincial planning commissions and getting approval from banks at the same level.

F. The management of individual and collective investment was strengthened. The direction and scale of individual and collective investment was placed under a guidance plan while the scale of loans was placed under a command plan. Loan projects must be projects approved by the state and in conformity to the state's industrial policy.

G. Land management was strengthened and the land examination and approval system consolidated. To better manage income derived from sales of state-owned land use rights, the State Council clearly stipulated that 40 percent of such income should be delivered to the

central financial department and 60 percent should be retained and used by local financial departments for special purposes. Income derived from the transfer of land use right should be used mainly for urban construction and land development. We have also defined the authority of government organs at all levels to examine and approve the sales of state-owned land use rights.

H. To readjust the industrial structure, the State Council made a list to show which industries are supported and which are restricted for every sector of the national economy. This shows that China has begun to formulate an industrial policy that suits national conditions. This will help organically combine the reform and development, and planning and market and further accelerate the reform and opening up.

I. The functions of relevant departments under the State Council were separated from those of state special investment companies. Departments in charge of corresponding industries and investment companies each formulated their own plans in accordance with their own duties. Investment companies must fully consult with relevant industrial departments and banks when they draw up their plans. Investment companies should send a copy of their plans to relevant industrial departments when they submit them to the State Planning Commission.

J. The State Council designated three cities—Nanjing, Changchun, and Chengdu—as single-listed cities in the state plan and gave them province-level economic management authority.

## 2. The reform of financial and tax systems and policy readjustment

A. We continued to implement different forms of financial contract systems and achieved fairly marked results. In 1989 the state's financial income (domestic revenue) exceeded budget by 4.4 percent and was expected to increase 10.7 percent over that of the previous year. Financial expenditure increased 11.4 percent. Financial deficits were estimated to exceed the state budget slightly.

B. To increase the state's macroeconomic regulation and control ability and centralize an appropriate amount of financial resources, in 1989 the state formulated measures to raise national budget regulation funds and levied 10 percent of national budget regulation tax on the extra-budgetary funds of local financial departments and all institutions, on the special funds of state enterprises and departments in charge of state enterprises, and on the after-income tax profits of all collective and private enterprises and individual industrial and commercial households.

C. To protect cultivated land, the state began to levy cultivated land use tax and readjusted the ratio of profit sharing between the central and local governments, which was changed from 50:50 to an inverse "30:70

ratio." Namely the central government gets 30 percent and the local government gets 70 percent.

D. Special farm and forest product tax was levied on income derived from special farm and forest products. The general rate was 10 to 15 percent. The lowest was 5 percent and the highest was 30 percent.

E. Special consumption tax has been levied on such commodities as color televisions.

F. In view of such problems as unduly lax financial management, localities and departments exceeding their authority to grant tax reductions and exemptions, loss of revenue, and excessive expenditure and waste, financial and tax departments carried out nationwide financial and tax investigations to rectify financial and tax order, strictly enforce financial and economic disciplines, strengthen financial supervision and tax collection and management, and strictly control tax reductions and exemptions.

G. The State Administration of Taxation issued a "circular on rectifying the tax order of individual industrial and commercial households in urban and rural areas" and levied regulatory taxes on the personal income of individual industrial and commercial households. Over 12 billion yuan of individual household tax was collected in 1989, an increase of nearly one-third over 1988.

H. To help tax departments become honest and clean and supervise one another, some provinces, autonomous regions, and municipalities carried out experiments in selected units to gradually initiate a change in tax departments so that their functions of "collection, management, and audit" will be separated, not integrated.

I. Experiments of separated tax payment and profit delivery, after-tax contract, and after-tax loan payment were carried out continuously in such pilot cities as Chongqing, Yiyang, and Xiamen in 1989.

J. To guarantee that tax departments function independently according to law and give full play to their supervisory role, the State Council stipulated that chiefs and deputy chiefs of provincial, autonomous regional, and municipal tax bureaus should be put under the management of the Ministry of Labor and Personnel on behalf of the State Council.

## 3. The reform of financial system and policy readjustment

A. We continued to control the amount of money supply and the scale of credit. In 1989, the total amount of national money supply and credit was under control. The amount of money issued was only 21 billion yuan, 19 billion yuan less than the plan and obviously lower than the 1988 level of 68 billion yuan. At the end of 1989, the amount of currency circulating in the market was 234.4 billion yuan, an increase of 9.8 percent over 1988 which was the lowest increase since 1979. The total amount of loans was 185 billion yuan, slightly higher than the planned control goal.

B. We readjusted the interest rates of savings and loans and continued to offer the service of value-guaranteed savings. The interest rates of different categories of savings increased on the average of 3.06 percentage points. Value-guaranteed interest rates have been offered continuously to savings of a three-year or longer period. This has substantially aroused the enthusiasm of urban and rural residents for savings. In 1989, the total amount of the savings deposits of urban and rural residents increased 133.4 billion yuan. At the end of 1989, the balance of the savings deposits of urban and rural residents exceeded 510 billion yuan, a record high in history.

C. We implemented a slanted credit policy and readjusted the credit structure. In 1989, we began to implement the slanted credit policy in accordance with the requirements of the state's industrial policy. In the first half of 1989, we made several arrangements to allocate 17 billion yuan of special funds. In the second half, we again made special efforts to allocate a large amount of money to support the needs of key industries and enterprises (projects).

D. The procurement funds of farm and sideline products were put under special management.

E. The state reajusted the exchange rate of renminbi, vigorously supported the efforts to earn foreign exchange through exports, and exercised strict control over the use of foreign exchange for imports. By mid-December 1989, the national plan for cash foreign exchange earnings from exports was overfulfilled and the balance of cash foreign exchange earnings showed an increase of \$2.1 billion-plus over that at the beginning of the year. State banks issued an additional of nearly 10 billion yuan in loans to support the production, procurement, storage, and transportation of export goods.

F. The state strengthened the macroeconomic regulation and control functions of the central bank and its provincial branches. To fully develop the role of finance in macroeconomic regulation and control, centralize the management of banks, and ensure that the People's Bank functions independently according to law and fully exercise its role of supervision, regulation, and control, the State Council stipulated that the presidents and vice presidents of provincial, autonomous regional, and municipal branches of the People's Bank of China be put under the direct management of the State Council.

G. In view of the problem that the excessive development and poor management of various kinds of trust and investment companies had disrupted normal financial order, divided limited social funds, expanded the scale of fixed-asset investment, and affected macroeconomic control, the State Council formulated six regulations concerning cleaning up and consolidating nonbank financial organizations and various kinds of financial companies.

H. The state issued 12 billion yuan of value-guaranteed bonds, strengthened the management of treasury bond market, and continued to experiment with security market in selected units.

4. The reform of distribution system and policy readjustment

A. We controlled the growth of social consumption funds, further controlled the purchasing power of social groups, and added three more categories of special control commodities. In 1989 the total amount of social group consumption was 69.3 billion yuan, an increase of 4.2 percent over 1988. The increase rate of workers' wages was controlled. In 1989 the total wage bill was 264 billion yuan, an increase of 14 percent over 1988. After deducting the price factor, the growth of social consumption fund was negative.

B. We further improved and perfected the measure linking enterprises' wage bill to economic performance. The state implemented the decentralized management of enterprise wage. In other words, in regions (including provinces, autonomous regions, municipalities, and cities with province-level economic decision authority) and departments, the state implemented the measure that linked the enterprise wage bill of a region or department to its economic performance. According to actual conditions, the region or department then adopted different wage distribution measures for different enterprises within the range of base figures and floating ratios approved by the state (usually give or take one percent in economic returns and 0.5 to 0.75 percent in wage bill). Those regions and departments which temporarily could not establish the link were allowed to adopt the enterprise wage bill contract system.

C. We further strengthened the management of wage funds. In accordance with the annual wage bill approved by the state, grassroots units had to draw up a wage fund use plan and submit it to their supervising department for examination and to the labor department and other related departments at the same level for approval. After it was approved, it was listed in the "wage fund control manual." Banks then supervised and made wage payments according to the manual.

D. To prevent the loss of state revenue and the excessive growth of consumption funds, the State Council asked tax, financial, and price inspection offices and financial departments at all levels to take the responsibility to clean up and investigate various forms of unauthorized "small banks" established by all organs, groups, enterprises, and institutions in violation of the financial and economic system.

E. To alleviate the problem of unfair social distribution, industrial, commercial, tax, and financial departments strengthened the control and supervision of the economic activities of individual industrial and commercial households and private enterprises and guided them in establishing income and expenditure accounts and paying taxes according to law.



F. To strengthen the building of a clean government, some state organs and regions implemented on a trial basis the personal taxable income filing system. Light industrial departments in Shanghai Municipality implemented the filing system for the nonwage income of enterprise leaders. All localities also reduced the ratio of the wage income of enterprise contractors and renters to the wage income of workers.

G. We continued to experiment with the housing system reform in selected units. Some cities continued to study and formulate plans for the housing system reform. Guangzhou Municipality was the first provincial capital to experiment with the housing system reform in selected units.

In addition, the state also adopted some comprehensive measures to strengthen the supervising and self-restraining mechanisms of national economic movements: 1) tax, financial, and price inspection was institutionalized and standardized; 2) the state exercised vertical leadership in banks, customs, and tax departments to enable them to function independently. This increased the macroeconomic regulation and control ability and supervisory functions of the functional economic management departments of the government.

## **II. Circulation Order Has Been Rectified, Price Increase Controlled, and Market Order Improved**

To fulfill the target and task of the improvement and rectification campaign and check inflation, in 1989 we concentrated efforts on cleaning up and rectifying various administrative companies in the circulation sphere and strengthened the management and supervision of market and prices. As a result, price increase slowed down markedly and market order began to take a turn for the better.

### **1. Price readjustment, management, and supervision**

In 1989 the national retail price index was not that much lower than the control target of 1988, but the tendency of rapid price increase was under control. Besides, it began to slow down every month. The broad masses of people basically got over their anxiety over price increases. In 1989 the retail price index rose 17.8 percent, a decline of 0.7 percentage points from the increase rate in 1988. New price increases accounted for 7 percentage points, a decline of 9.5 percentage points from the 16.5 percentage points of 1988. In addition to the measures adopted by the state to alleviate the aggregate supply and demand contradiction such as controlling fixed-asset investment, tightening money supply, and restricting consumption, achievements in this regard were linked directly to the fact that the state had slowed down the step of the price reform and strengthened the management and supervision of prices.

A. Price readjustment was carried out in a prudent and safe manner. To stabilize prices, all localities voluntarily cut down the number or cancelled some items which had

been selected for price readjustment and properly readjusted the prices and fees of only very few commodities whose prices had been so extremely irrational that failing to readjust them would adversely affect production enthusiasm, which could increase effective supply within a short period of time, and which had an important effect on the withdrawal of currency from circulation. In 1989 the state introduced mainly the following price readjustment measures: raised the prices of crude oil, salt, and coal; levied special consumption tax on such products as color television; raised the prices of railway, water, and air transportation; raised the contract procurement prices of grain, cotton, and edible oil and the sales price of cotton; raised the price of electricity in some areas; and began to collect tuition and miscellaneous charges from college freshmen. It was estimated that these price readjustment measures would affect 2.5 percentage points of national retail prices.

B. We continued to implement the decentralized price management system under which each level is responsible for its own control target. First, the State Council issued targets of price level increase control to different provinces, autonomous regions, and municipalities. Then, local governments at all levels broke down and issued such targets to grassroots units and considered such price control targets as an important part of the evaluation of performance of local governments. Many localities adopted different measures in accordance with local conditions and resolved the price problem in a comprehensive manner.

C. The state consolidated the prices of coal, railway and highway transportation, the transfer prices of cotton, and the prices of the means of agricultural production. The state put a ceiling on the extra-budgetary prices of steel products, some nonferrous metals, some raw materials of the chemical industry, coal, and processed oil.

D. We properly reduced the prices of commodities whose prices increased too much, whose price disparity was too great, or which were stockpiled. We also implemented the price increase reporting system for some commodities whose prices had been decontrolled. All localities reduced the differences between the buying and selling prices and between the wholesale and retail prices of aquatic products and fruits and lowered the prices of selected varieties of traditional Chinese medicinal materials and over-the-counter traditional Chinese medicines whose prices increased too much or whose prices and profits were too high. Some large- and medium-sized cities also temporarily reduced the price of overstocked pork. All localities implemented one after another the price increase reporting system for those relatively important commodities whose prices had already been decontrolled. Some localities stipulated the ratio of gross profit and controlled the rate of disparity between buying and selling prices.

E. We stabilized the prices of the basic daily necessities of residents by increasing financial price subsidies and building the "vegetable basket" project. To ensure the

normal supply of commodities which had close bearing on the people's livelihood, prevent these commodities from raising prices as a result of cost increases, and protect the interests of the broad masses of consumers, government organs at all levels, in addition to adopting strict price control measures, increased price subsidies accordingly for these commodities and began the "vegetable basket" project in the suburban counties of large- and medium-sized cities. In 1989 China used as much as 40 billion yuan in financial subsidies for prices, an increase of 26 percent over 1988.

F. In 1989 the State Prices Administration continued to send price inspectors to provinces, autonomous regions, and municipalities; carried out a nationwide investigation of 117 products, whose production was licensed, to ban unlicensed production and marketing; and carried out major price investigations of agricultural raw materials, coal, petroleum, cotton, gauze, timber, and other industries. It carried out self-examination and sample survey of commodity prices, widely mobilized the broad masses of people to take part in price inspection and supervision, and set up telephones, boxes, and stations for the report of accusation.

## 2. Rectifying circulation order and strengthening market control

A few years ago, we failed to properly handle the relation between main channels and multiple channels in the course of enlivening circulation and opening up the market. As a result, the main-channel status of state-run commerce and supply and marketing cooperatives was weakened. After reducing the number of varieties under planned management and expanding the range of market, we failed to establish a new-style circulation system that integrates production, supply, and marketing, resulting in a temporary phenomenon where market management was out of control and circulation was chaotic. After the improvement and rectification campaign in 1989, phenomena in which "commodities travel and prices snowball" and panic buying force up prices have been markedly reduced. Main measures adopted in 1989 to rectify market order and strengthen market control are as follows:

A. Price departments at all levels coordinated with industrial and commercial administration and management, supplies, commercial, and foreign trade management departments and concentrated on cleaning up and consolidating wholesale enterprises and those retail enterprises which were also engaged in wholesale business. Units and individuals dealing with production, procurement, storage and transportation, domestic marketing, and foreign trade and exports were handled seriously if they had ignored state law and regulations to openly engage in panic buying by forcing up prices, involved in speculation and fraud, cheated by mixing the genuine with the fake, and sought exorbitant profits through illegal means.

B. Industrial and commercial administration and management departments carried out annual inspection and new registration of 299,000 companies of all kinds in the country. According to different circumstances, these companies were registered, disbanded, or merged. Some which had engaged in illegal activities such as illegal buying and selling to seek exorbitant profits were outlawed. In 1989 over 60,000 companies of various kinds were disbanded or merged throughout China. They also investigated the problem that some party and government officials moonlighted at companies (enterprises).

C. In accordance with the needs of different wholesale businesses dealing in important means of production and subsistence, we supplemented and improved control measures for restricting the flow of commodities, reducing the link of circulation, and controlling the disparity between wholesale and retail prices.

D. The state put a strict limit on units dealing with the wholesale business of major commodities including coal, gasoline, steel products, timber, cotton, and gauze and placed them under the direct control of the state. The state also clearly stipulated that four steel products, several nonferrous metals, major means of agricultural production (including plastic film, diesel oil, chemical fertilizer, and pesticide), and color televisions are under state monopoly.

E. Industrial and commercial management departments rectified all fair trade markets in China, strengthened management and supervision, banned a group of unlicensed pedlars, and clearly stipulated that all commodities for sale must have clearly marked price tags.

F. Supplies departments separated government functions from enterprise responsibilities and vigorously strengthened industrial management. They allocated resources according to the state's industrial policy, limited the irrational consumption of important goods and materials, cleaned up and rectified all kinds of supplies companies, strengthened the building and management of capital goods markets, promoted and improved the contract management responsibility system of supplies enterprises, established the information and statistics system of the supplies industry, and readjusted the capital goods supply and marketing organizations of relevant departments under the State Council. All this has created favorable conditions for solving the problems of decentralized management, scattered resources, and low efficiency in resources distribution.

## 3. Foreign trade system reform and policy readjustment

Since the implementation of foreign trade contract system in 1988, the central government contracted out foreign trade subsidies to different regions and assigned responsibility down to each enterprise, thus providing an initial solution to the problem that power, responsibility, and interest are separated from each other and arousing the enthusiasm of all fields for supporting and developing foreign trade. In 1989, foreign trade and export experienced domestic price increases, a fund shortage, a

decline in the sources of major export commodities such as raw materials, a shortage of supply of raw materials for export production, and economic sanctions imposed on us by some Western countries. Under these difficult conditions, foreign trade departments and all localities and other departments adopted some measures to deepen the reform and readjustment, reversed the situation of export decline which had occurred temporarily, and prevented a slide in foreign trade. According to the statistics of customs, in 1989 China exported \$52.5 billion of commodities, an increase of 10.5 percent over 1988 and imported \$59.1 billion of commodities, an increase of 7 percent over 1988.

Main measures adopted in 1989 for foreign trade reform and readjustment are as follows:

A. We controlled the growth of aggregate social demand, increased the sources of export goods, and alleviated the contradiction between expanding exports and satisfying domestic market.

B. We continued to implement the export tax return system and increase the amount of tax return.

C. We appropriately increased the percentage of foreign exchange earnings retained by the light, handicraft, and clothing industries which were carrying out the experiment of foreign trade system reform, thus further arousing the enthusiasm of localities, departments, and enterprises and increasing their ability to compete.

D. Concerned local governments and departments adopted effective measures to help solving problems for the expansion of exports. They provided practical and effective support for export production in regard to energy resources, funds, the supply of raw materials, the organization of the sources of goods, and transportation. Some localities also used local financial resources to provide great financial support for export. The State Planning Commission tried to increase the sources of some export goods. The Ministry of Foreign Economic Relations and Trade squeezed out some foreign exchange earnings earmarked for supporting export with import to help some key areas solve their problems with raw materials and energy resources in export production.

E. We adopted a series of resolute measures to improve foreign trade environment, clean up foreign trade companies, and rectify foreign trade order, united all departments to deal with foreign countries, and effectively stopped the "war" of internal exhaustion where people competed with one another to purchase certain export commodities by offering higher prices and then exported them at reduced prices.

F. We adhered to principles, did a great deal of work, and lifted the economic sanctions of some Western countries.

### III. The Contract Management Responsibility System and the Plant Director (Manager) Responsibility System Have Been Upheld and Perfected in the Improvement and Rectification Campaign

In 1989 the external environment of enterprise production and management were very severe. At the beginning of 1989, the production and management of enterprises were affected by such problems as shortages of funds, energy resources, raw materials, and transportation. Between spring and summer, under the influence of disturbances and riots in Beijing, some people caused serious problems in some localities by attacking enterprises and instigating strikes. As a result, production order was very abnormal during that period. In the second half of 1989, some unexpected new situations such as a sudden decline in the speed of industrial production and a sluggish market occurred and dampened to a certain degree the enthusiasm of producers and managers. In view of these situations, the CPC Central Committee, the State Council, and local party committees and governments at all levels adopted a series of measures to stabilize enterprises and clearly announced that the enterprise contract management responsibility system, the plant director (manager) responsibility system, and the policy of linking wage to performance will remain unchanged. By so doing they further unified understanding and strengthened faith. Main measures adopted in 1989 to deepen enterprise reform and strengthen enterprise management are as follows:

1. We further upheld and perfected the enterprise contract management responsibility system.

A. At the beginning of 1989, all localities made conscientious efforts to honor contracts signed in the previous year. They adhered to the principle of making no concessions and distinguishing awards from sanctions and appropriately readjusted contract bases for a few enterprises which could not fulfill their contracts due to nonmanagerial factors.

B. With regard to the profits owed by contracting enterprises, some enterprises used their own funds or risk funds to make up the amount they owed and others put it on credit and promised to pay later.

C. All localities appropriately readjusted upward contract bases for those enterprises which had higher profits due to nonmanagerial factors, especially those which had extra profits due to the price increase of products.

D. In view of the unstable external environment of enterprises, some provinces and municipalities established the risk fund system in some enterprises.

E. In order to guarantee the master status of the working class, some prefectures and cities carried out the "joint insurance contract" that combines the managers' contract responsibility system with the system under which all staff jointly assume responsibility. Many prefectures adopted on a trial basis the method of all staff risk secured contract.

F. In view of the situation that some enterprises with greater profit retention did not pay attention to increasing input, many provinces and municipalities stipulated that enterprises should appropriately increase the ratio of production and development fund to their profit retention, pay attention to strengthening their self-restraining mechanism, and increase their stamina in development.

G. All provinces and municipalities made it an important issue to find a rational solution to the problem of contractors' income. In accordance with the principle that there should be different grades but the gap between contractors' and workers' income should not be too wide, they made concrete stipulations concerning this issue.

H. All localities studied and made arrangements for connecting enterprises whose contracts had expired to a new round of contracting work. Some adopted the rolling method which extends the expired contract by two more years to match the period of the improvement and rectification campaign. Some reset the contract bases to match the new contract period to the Eighth 5-year Plan.

I. In the course of perfecting the contract management responsibility system, some provinces and municipalities implemented on a trial basis the all staff asset contract system.

J. The contract manager credential system was established to ensure "training comes first and bidding comes later."

K. Some commercial enterprises added targets for the evaluation of service quality such as the degree of customer satisfaction in enterprise contracts according to the characteristics of industries. They also combined economic and social returns in evaluation.

L. In view of very few enterprises which had resorted to deception and distorted accounts and profits, we stepped up auditing after enterprises' management contracts were fulfilled and implemented a system under which we first audit the returns and then honor the contract.

## 2. Continuing to adhere to and perfect the plant director (manager) responsibility system

A. In accordance with the "law of enterprise" and the guidelines of relevant documents of the CPC Central Committee, all localities set forth concrete demands on adhering to and perfecting the plant director responsibility system and further clarified that the party organization of an enterprise is the central political and ideological leader of that enterprise and that a plant director (manager) is the representative of the legal persons of an enterprise who assumes total responsibility for the production of the enterprise.

B. In accordance with the guidelines of relevant documents of the State Council and the CPC Central Committee, governments at all levels paid attention to correcting wanton violations of enterprises' rights and

formulated rules and regulations to stop unauthorized apportioning of expenses, withholding of funds, and imposing of fines on enterprises, thus creating a good external environment for the implementation of the plant director (manager) responsibility system and the enterprise contract management responsibility system.

C. To improve the political and professional quality and organizational and leadership skills of plant directors (managers), all localities attached great importance to and strengthened the training and selection work of plant directors (managers).

D. To prevent enterprises' short-term behavior, all localities further improved the system of targets for the examination of plant directors' (managers') personal ability and the evaluation of production and management results.

## 3. Further developing the backbone role of large- and medium-sized enterprises

To increase the vitality of large- and medium-sized enterprises and develop their backbone role, in 1989 all areas and departments implemented in accordance with the state's industrial policy the proper slant policy in regard to the funds, energy, raw materials, and transportation of large- and medium-sized enterprises, thus ensuring the steady growth of some key light industrial products and capital goods and increasing the effective supply. At the same time, the state selected a group of large- and medium-sized enterprises with solid foundation to carry out the "two-way guarantee contract." In other words, the state guarantee the supply of funds, energy resources, and raw materials to the enterprise and the enterprise guarantee the fulfillment of the state's command-style plan. The state also began to centralize funds, manpower, and material resources and used advanced technology and equipment to create local advantages and gradually help a large group of large- and medium-sized enterprises enter the international market.

## 4. Optimizing the organizational structure of enterprise

A. We further developed enterprise groups. In 1989 in accordance with the state's industrial policy, we further readjusted and optimized enterprises' organizational structure, turned some enterprises' individual advantages into group advantages, and effectively increased their ability to compete. By the end of 1989, over 1,630 enterprise groups were developed throughout the country. Of which, 15 enterprise groups were given higher economic decision-making authority in the state plan.

B. We further promoted the optimized organization (mergers) of enterprises. In 1989, the State Restructuring of the Economic System Commission, the State Planning Commission, the Ministry of Finance, and the State Administration of State Property jointly promulgated the "Provisional Rules and Regulations on Enterprise



Mergers" and effectively promoted the optimized organization of enterprises. Some localities and departments issued guidelines for superior enterprises to merge inferior enterprises. Banks in all localities used their regulatory functions concerning credit and interest rate to help solve problems for optimizing the organization of enterprise. Financial, banking, auditing, and state property management departments took the responsibility to clear debts and appraise assets for inferior enterprises. In 1989 the optimization of enterprise organization made new progress in scale, quantity, method, and range. According to the incomplete statistics compiled in 1989 in 27 provinces, autonomous regions, and municipalities, 2,856 superior enterprises have merged 3,424 inferior enterprises.

#### 5. Starting to experiment with the property right trading market in selected areas

To accelerate the rational flow of enterprises' productive factors, in 1989 we set up pilot units in Zhengzhou, Taiyuan, Nanchang, and Harbin cities after we set up pilot units for property right trading markets in Wuhan, Chengdu, and Baoding cities in 1988.

#### 6. Reforming the internal management system of enterprise

A. We continued to promote enterprises' internal management methods such as overall quality control, management by objective, optimized labor organization, full-load work method, and internal bank.

B. We continued to implement the system of separated capital accounts in some enterprises to strengthen their self-restraining mechanism and increase their self-accumulation and self-development ability.

C. To explore new mechanisms and new methods for enterprises' internal management, in 1989 a group of enterprises across the country experimented with some new management methods such as the total quality-related wage system, the systematic distribution method, the optimized management method, the price control method, and the simulated market method and scored marked achievements.

### IV. The Rural Reform Has Been Deepened Continuously and the Development of Agricultural Production Has Been Accelerated

In 1989, we conscientiously reviewed the experience and lessons of the stagnation of agricultural production a few years ago. On this basis, we conscientiously increased agricultural input and control and considered reaping a bumper harvest a basic task of all provinces, autonomous regions, and municipalities. In spite of the serious natural disaster, we still had a bumper harvest in 1989. Preliminary statistics show that in 1989 the gross value of China's agricultural output was 655 billion yuan, an increase of 3.3 percent, calculated on the basis of comparable prices. The annual grain output of China was 407.45 million tons, an increase of 3.4 percent over the

previous year and 140,000 tons over 1984 which also had a bumper harvest. It was the highest record in history.

1. We fully affirmed the achievements of 10-year rural reform and reestablished the guiding principle that agriculture is the basis of the national economy.

2. In 1989, the state increased the procurement prices of major farm products such as grain, cotton, oil-bearing crops, and hogs and readjusted the price parities between grain and cash crops. The procurement prices of farm products increased on the average of 18 percent or so, arousing the enthusiasm of peasants for farming and growing grain.

3. We reformed the rural scientific and technological system and vigorously popularized the agricultural science and technology contracts. According to the incomplete statistics of 25 provinces, autonomous regions, and municipalities, in 1989 over 220,000 agricultural scientists, technicians, and related personnel throughout the country went down to the first front of agriculture to carry out scientific and technical contracts, in accordance with the demand of the scientific and technical "spark" plan which renders direct service to agriculture. Thanks to technical contracts which covered 309 million mu of crops, grain output increased by 6.5 billion kg, cotton by 110 million kg, and oil-bearing crops by 280 million kg. Other cash crops also increased. The total value of growth was 6.768 billion yuan.

4. The state increased investment in agriculture and water conservation, and local financial departments also increased some input. The state also guided peasants in increasing labor accumulation and agricultural input. Last year, all localities stirred up a new high tide in farmland irrigation construction.

5. We strengthened comprehensive agricultural development. Through the popularization of applied agricultural technology, we accelerated the all-round development of agriculture, forestry, animal husbandry, sideline production, and fishery, promoted the diversified management of industry, commerce, construction, and transportation, developed the multiple processing of farm and sideline products, strengthened the collective economy, did a good job in readjusting township enterprises, and transformed, upgraded, protected, and rationally utilized farmland.

6. We improved the service rendered before, after, and during agricultural production. In some economically developed areas, we popularized and built integrated bodies of agriculture, industry, and commerce, or foreign trade, industry, and agriculture, and developed agricultural production oriented toward exports and industries processing export-oriented farm products. Governments at all levels strengthened leadership and guidance for agricultural production. Commercial departments and supply and marketing cooperatives were responsible for providing information and promoting the sales of products. Agricultural means of production departments

were responsible for supplying capital goods. Agricultural departments were responsible for technical guidance. Insurance departments provided disaster insurance for agricultural production.

7. We improved and readjusted social environment for agricultural production. Governments at all levels readjusted and formulated new plans for rural economic and social development, strengthened work in rural education, controlling population growth, and improving social environment, and conducted research and probe in the improvement of rural grassroots party organization and grassroots political power.

#### **V. New Progress Has Been Made in Opening Up Still Further, Absorbing Foreign Capital, and Developing Enterprises of "Three Capital Sources"**

In 1989, China from the leadership to the masses successfully overcame the temporary difficulties caused by the disturbances and riots in Beijing and economic sanctions of some Western countries. China continued to open up, further improved its investment environment, and scored achievements that were better than expected in the utilization of foreign capital and the development of enterprises of "three capital sources." According to incomplete statistics, in 1989 China signed \$4.306 billion of loan agreements with foreign countries and actually used \$5.27 billion of loans, an increase of 0.26 percent over the corresponding period of the previous year. China newly approved 5,224 foreign investment projects, an increase of 9 percent over the corresponding period of the previous year. The new direct foreign investment agreements China signed with foreign investors involved the use of \$5.14 billion foreign funds, an increase of 5.6 percent. The actual amount of foreign funds used were \$3.3 billion, an increase of 4.1 percent. The exports of enterprises of "three capital sources" were \$2.96 billion, an increase of more than 1-fold compared with the corresponding period of the previous year. Main measures China adopted in 1989 to open up to the outside are as follows:

1. We further improved investment environment for foreign investors. On the basis of further perfecting the foreign investment service system, some coastal open cities established complaint coordination centers for foreign investment enterprises, promulgated rules to file and handle complaints, did our best to help foreign investors solve various economic disputes and actual problems in investment, production, and management, protected the legal rights of Chinese and foreign investors, and gave as much consideration as we could to the needs of enterprises of "three capital sources" in regard to funds, raw materials, energy resources, and transportation.

2. Coastal open cities and five special economic zones implemented the principles of the central government on improving economic environment, rectifying economic order, and deepening the reform and readjusted their

industrial structure and investment direction in accordance with the state's industrial policy and the situation of the international market. As a result, they raised the technical level and improved the quality of products and increased their ability to compete and cooperate with other countries.

3. We opened investment zones for Taiwanese investors in special economic zones such as Xiamen to attract investors from Taiwan. Xiamen Municipality approved over 130 contracts for Taiwan investment enterprises, involving \$490 million of investment. Of which, Taiwanese investment was \$480 million.

4. In accordance with the special policies the central government worked out for them, Guangdong, Fujian, and Hainan provinces continued to carry out comprehensive experiment with reform and opening up to create good investment and management environment for Chinese and foreign investors.

5. In view of the phenomena that border trade was chaotic and that economic and technical cooperations and labor exports lacked management, we carried out the improvement and rectification campaign and readjustment to strengthen overall coordination and enabled border trade and economic and technical cooperations to gradually become institutionalized and standardized.

6. To prevent localities and enterprises from blindly absorbing foreign capital and foreign investment projects, we strengthened overall control over the borrowing and using of foreign capital and enterprises of "three capital sources."

7. With regard to those enterprises of "three capital sources" whose internal sales products were stockpiled because of nonmanagerial factors such as the improvement and rectification campaign and the state's macroeconomic control, governments and related departments at all levels vigorously adopted measures to help them unclog channels. Beginning in October 1989, the state decided to have the People's Bank of China and the Industrial and Commercial Bank of China take out some renminbi loans to purchase stocked cars manufactured by local joint ventures in Beijing, Tianjin, Shanghai, and Guangzhou. This helped the automobile production of a group of joint venture auto plants become normal.

8. We allowed foreign investors to contract large-area development within special economic zones and foreign economic and technological development zones. In July 1989, the Xingang Economic and Technological Development Zone of Tianjin signed an agreement with the MGM Company of the United States on contracting the development of an area of 5.3 square kilometers.

#### **Status of Contract System Viewed**

*HK0808000190 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 6, 20 Jun 90 pp 51-59, 28*

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and Liu Xuan (0491 6513) of the Beijing Economic Structural Reform Office; edited by Lin Li (2651 4539): "The Contract System: Reality and Options"; abridged from a 20,000-character research report]

**[Text] I. A Realistic Option for the Implementation of Reform**

Enterprise reform is the central link of China's economic structural reform. Over the past 10 years, industrial enterprise reform has been comprehensively launched in the course of practical exploration. In this period, the enterprise contract system, which is one of the main forms of the reform of state-owned industrial enterprises, has undergone a development process—the reform was first implemented on an experimental basis, and then has been generally promoted. The specific forms and contents of this system have been gradually improved and made perfect in the course of practice. The contract system has become a realistic option for the implementation of enterprise reform. This is the practical foundation for deepening enterprise reform.

The development process of the reform of the industrial enterprises in Beijing is also similar to this process. After the initial exploration stage (1979-82), where the basic thinking was focused on expanding the decision-making power of enterprises, and the hesitation and selection stage (1983-86) which was characterized by diversified thinking and forms, since 1987, the reform has entered a stage where the contract system, which has been mainly in the form of "two guarantees, one linkage," (one guarantee being enterprises' guarantee of fulfilling the target amount of profit (profit and tax) which the enterprises have to turn over to the state, the other being the guarantee of enterprise technological renovation; and the linkage referring to the linkage between the total amount of wages of enterprises and the economic returns of enterprises) has been comprehensively implemented in industrial enterprises.

The emergence and development of the contract system implemented in industrial enterprises has an outstanding characteristic: It is not a "standardized" form of reform put forward and designed in accordance with theoretical and research thinking, but is a main form inspired by the success obtained by the rural reform, and a form that has been gradually confirmed through the demonstration of its role and effects in the practice of reform. Moreover, this form has become a common main form. The comprehensive implementation of the contract system of "two guarantees, one linkage" in the industrial system in Beijing resulted from the realistic choice made in accordance with the comparison between the real effects obtained by various reforms and objective conditions, and under a difficult situation. This has reflected the inherent law governing the development of enterprise reform. That is: An ideal form cannot be chosen without considering the practical situation and requirements, and the process of enterprise reform will not be completed immediately. Besides, there is a complicated, constraining, and limited relationship between

enterprise reform and the reform of the entire economy, and between enterprise reform and the development of the economy in the same period. Therefore, the establishment of a new enterprise system can only be a process of gradual revolution and growth.

Then, why did the enterprise contract system become a practical option that has been chosen in the course of the implementation of a series of reforms and in the course of exploration, while the contracted management responsibility system in the form of "two guarantees, one linkage" has become the main form of the reform of the industrial enterprises in Beijing? We hold the following viewpoints:

1. Fundamentally speaking, this was determined by the characteristics of the enterprise contract system itself. The main characteristics are: 1) The contract system has constituted the form of enterprise management which can effectively give play to the role of the benefit mechanism. The foundation of the contract system in the form of "two guarantees, one linkage" is the summary of the enterprise reform experience obtained in the period before the implementation of this system. This system has used the reform measures, which are of help in ensuring financial income growth and in enhancing the inherent motive power of enterprises, to construct a complete system that has inherent linkage, and has used the form and contents of a contract system to express such a complete system. The most remarkable characteristic of this type of contract system is that it has adopted the practice of target management and the practice of comprehensive assessment in accordance with the terms stated in contracts, and has guaranteed the state's financial income, investment in technological renovation of enterprises, and the income of staff and workers. Moreover, under practical conditions, it has thus established a form of enterprise management which can handle in a better way the benefit relationship among the state, enterprises, and staff and workers. Such a form of enterprise management can transform the internal and external pressure on enterprises into the inherent motive power of enterprises, and can motivate enterprises to fulfill and to try their best to over-fulfill the contract targets. 2) The scope within which this contract system can be adopted is wide, related policies are clearly defined, and this system can thus easily match the current management system and the current policy environment. Therefore, less difficulty has been involved in implementing this contract system. Moreover, the contracted targets are simple and clearly defined, and can be easily organized and fulfilled. Besides, contracted targets and specific methods can be chosen according to different circumstances. Therefore, this form of contract system can be implemented in different industries and in enterprises that have different operation scales. It is exactly due to the above-mentioned two basic characteristics that the contracted management responsibility system has been generally implemented in large and medium-sized state-owned enterprises.

2. When compared with other forms of reform, such as the practice of "replacing profits by taxes at two stages," the leasing system, the shareholding system, and so on, the contract system has many strong points. These strong points have naturally enabled the contract system to become the main form of reform.

The practice of replacing profits by taxes at two stages, which has been implemented since 1983, is an important reform measure centering on standardizing the system of distributing enterprise returns according to definite proportions. This is also a reform measure attempting to put enterprises' production and management activities under the management of the taxation and the legal systems. However, practice showed that due to the fact that the situations of different enterprises vary, and there are great differences among enterprises, the adoption of the practice of replacing profits by taxes has not been able to start the process of fair competition. At the same time, due to the high rate of profit tax (55 percent) and the existence of the regulatory tax system whereby each individual enterprise will have a different tax rate, the proportion of the additional profits to be retained by enterprises has been reduced. As a result, the enthusiasm of enterprises has been affected. At this time, the practice of linking wages to returns has not been comprehensively promoted, and the pressure of state income has not been comprehensively transformed into the inherent motive power which will enable enterprises to strive for increasing profits and taxes. Moreover, the existence of regulatory tax has also added non-standardized factors to this standardized reform. The practice of replacing profits by taxes itself has not fixed any form in which enterprise reform is to be implemented. However, the establishment of this type of benefit distribution system will of course affect the behavior of enterprises, and will constrain the reform of the forms of enterprise management.

The implementation of the leasing system in industrial enterprises on a trial basis has achieved good economic results. This is an important practical move for exploring a way through which the relationship among the state, enterprises, staff and workers, and managers can be handled in a better way. The leasing system is one of the reforms focusing on the separation between property ownership and production management. It has been playing a significant influential and enlightening role in the practice of enterprise reform. However, due to the fact that the time period required for organizing and implementing the enterprise leasing system is too long, and due to the reasons that the task of estimating the value of properties will involve great difficulty, and that there is great operation and management difficulty, the scope within which the leasing system can be promoted in industrial enterprises has been constrained. The results of the trial implementation showed that the leasing system is only suitable to be implemented in small-sized enterprises, and in enterprises which can earn only a small profit margin. Moreover, due to the limited scope of the implementation of this system, it

cannot be commonly implemented in large and medium-sized state-owned enterprises.

In China, the enterprise shareholding system is still at the stage of initial exploration, and the development of this system has been rather slow. Up till now, a mature and standardized system has not been formed for the shareholding system, and the ways of implementing this system on a trial basis have been varied among enterprises. This system has mainly played a role in handling the distribution of benefits among the enterprises that are within lateral enterprise ties, and in getting idle funds from society and staff and workers of enterprises for production development and so on. Since this reform has involved the question of how to reconstruct the basic socialist economic system, the question of how to establish a principle governing property rights, and other questions that will affect society at a deeper level, a corresponding economic system and corresponding laws and regulations should be established to provide conditions for the operation and development of this reform. Therefore, this system cannot be implemented in a wide scope under the practical situation.

3. The reasons why the implementation of the enterprise contract system has been regarded as a practical choice is that this choice was made in accordance with practical needs and conditions, and such choice has helped to establish an enterprise management mechanism which can be generally implemented and can play a strong motivating role.

The reconstruction of an enterprise management and development mechanism which has vigor is the basic task of enterprise reform, in particular the reform of large and medium-sized state-owned enterprises. The key lies in finding a way through which the responsibility, power, and benefit relationship between the state and enterprises can be redefined. Such a way should not rely on the quantity changes and the natural development of the original mechanism, but should be adaptable to the reconstruction and growth of the enterprise management mechanism. The contracted management responsibility system in the form of "two guarantees, one linkage" has emerged and has been developed in accordance with these basic requirements. First, the contract system of "two guarantees, one linkage" has rigidly fixed one target—that is to take the guarantee for ensuring the stability and growth of state income as the main assessment indicator; and has allowed flexibility on another target—that means the total amount staff and workers' wages will fluctuate in accordance with the changes in the amount of economic returns achieved by enterprises. The central objective of the production and management activities to be carried out by enterprises in the contract period is to fulfill the basic figure of the target profits to be turned over to the state. Such activities are affected by the motivation derived from the practice of enterprises retaining a larger proportion of the additional profit achieved by them in the contract period. At the same time, under the precondition that the growth of the benefits of the state and the growth of the profits and



taxes achieved by enterprises should be ensured, overall increase in the income of staff and workers is allowed. The practice of macroscopic management and constraints adopted by the state in the past has been transformed from a practice of proportional quantity control (that is to regulate the proportion of the growth of wage) into a practice controlling the dynamic aggregate quantity of the total amount of wages. In this way, the pressure exerted by the growth of the income of staff and workers has been transformed into the inherent motive power for achieving enterprise management development.

Second, when contract targets are fixed, the method used in distributing the additional profit (profit and tax) achieved by enterprises will be changed. The method of simply distributing the aggregate amount in accordance with fixed proportion adopted in the past has been changed, and the benefit-distribution method of fixing the amount of profit and tax to be turned over to the state, and returning to enterprises the profit amount that has exceeded the target amount according to the proportion stipulated, has been adopted. This practice has handled the relationship between the target of ensuring financial income and the target of encouraging enterprises to earn more profit in a better way; has expanded investment in enterprise production; opened more ways through which staff and workers' welfare funds can be obtained; and strengthened the self-development capability of enterprises.

Third, the fixing of contract targets reflects a situation in which rigidity coexists with simplicity, the decision-making power of enterprises had been reformed, and the management contents and forms of the department in charge of enterprises had been reformed. Besides, enterprises have been induced to face the market, and they have organized production and management activities in accordance with the viewpoint held by a relatively independent commodity producer. In view of this situation, the macroscopic management means used by the government should be changed.

In short, the contract system has defined the relationship between the state and enterprises, has defined in contracts the responsibilities and the rights of enterprises (managers) in the contract period, and has established the role of the benefit mechanism on the foundation of a relatively stable form of management. The defining of such a distribution relationship is of help in enabling enterprises to separate themselves from being administrative subordinates, and in enabling them to face the market. The constraints and motivation of the market mechanism have enhanced the motive power of enterprises, increased pressure on enterprises, and externally promoted the development of the management mechanism of enterprises. Under the comprehensive influence brought about by the changes in the internal and external reform measures and the operation environment, the motive power of enterprises to promote internal reform has been generally enhanced.

4. The implementation of the contract system has also provided a basic framework and advantageous conditions for the development of various reforms. These have been specifically reflected in the following aspects:

(1) The system of overall leadership by the factory director has been enhanced. The contract system has enhanced the system of overall leadership by the factory director through the implementation of enterprise system reform. The practice of signing contracts with the departments in charge of enterprises by the factory directors who are representing the enterprises has clearly defined that the factory director of each is the primary responsible person in the contracts. It has also further stressed the central position of factory directors in carrying out enterprise production and management activities. A relatively stable contract relationship has been established between factory directors and the departments in charge of enterprises, and this has to a large extent, diluted the official image of these departments.

(2) The formulation and perfection of enterprise management and development strategy has been promoted. The policy governing this system will not be changed in the contract period. This has created advantageous conditions for the formulation and implementation of the development strategy and plans governing the decision-making power of enterprises.

(3) The competitive mechanism has been introduced, and the reform of the personnel labor system of enterprises has been promoted. In distributing contract tasks among the personnel in an enterprise, many have adopted the tender bidding method to choose the best people to manage. This has thus changed the past situation in which the cadres in charge of the management of an enterprise were not closely linked to the management targets. Some enterprises have also introduced the risk mechanism, and have adopted the contract system in which the managing personnel or all personnel have to take the contracted responsibility. On the basis that the practice of linking wages to returns has been comprehensively adopted, enterprises have made use of the optimization of labor combination to obtain a breakthrough, and have launched the reform of the enterprise cadre system; of the enterprise personnel system; of the distribution system; and so on, in a profound manner. In the aspect of concrete practice, many enterprises have regarded the "full-load method" as the principle for fixing the number of personnel and their job responsibilities, and aimed at achieving optimization of personnel through open and fair competition. The adoption of the practice of dynamic combination and control management, and the implementation of the system of allocating jobs for unemployed and surplus workers, has played an apparent role in breaking up the "iron rice bowl," in enhancing the sense of risk and the sense of crises, and the self-constraining mechanism of enterprises. At the same time, enterprises in general have already obtained the right of choosing for themselves, the forms of distribution, and the wage criterion. These

have provided conditions for enterprises to implement reform of the internal distribution system.

(4) The establishment and perfection of the internal accounting system of banks has been promoted. Since the implementation of the contract system, enterprises have faced the market; making independent management decisions and assuming profit and loss has been enhanced. Enterprises have thus been trying their best to overcome negative factors—which will decrease profit and are a result of changes in the external environment—through the adoption of the “double increase, double economy” practice. Furthermore, the sense of urgency and awareness, which will induce enterprises to establish within-enterprise banks, to enhance internal accounting, and to control funds, have been enhanced.

(5) The transformation of the functions, and the management means and forms of the government and the departments in charge of enterprises has been promoted. The comprehensive implementation of the contracted management responsibility system has brought apparent changes in the relationship between the government and the departments in charge of enterprises on the one hand and enterprises on the other. On the form of management, the past practice of multi-level administration in which enterprises were managed by the government, the head office, and second level companies, has been transformed and now they are mainly under indirect management of comprehensive economic departments. This transformation has induced the head office to readjust and change its management methods and functions in accordance with the objective requirements of economic reform and development. In the aspect of management means, the past practice in which enterprises were managed and controlled by administrative orders, and the method of assessing, appointing and dismissing cadres, has been changed to relying on economic means, the market mechanism, and the means of tender competition, for promoting perfection of the enterprise management mechanism.

Of course, the changes in the aspects mentioned above are not simply the results brought about by the enterprise contract system. They are in fact overall effects and were achieved by economic reform. However, a fact that should not be negated is that the contract system has provided important foundation conditions for, or has played a guiding role, in obtaining such changes.

In view of the changes in the amount of benefits distributed to enterprises, which are resulted from the implementation of the “two guarantees, one linkage” system, we found that it has definitely changed the distribution proportion. However, we hold the view that it is not correct to simply regard the contract system as the product of the thinking of “reducing tax rate and making profit concession.” In considering the changes in the distribution proportion, the role and form of the contract system should also be taken into account. When a contract is signed, the state will on one hand make no

concession (on the aspect of the basic figure) to enterprises, while on another hand the state can make many concessions (the additional profit obtained after fulfilling the basic figure) to enterprises. Therefore, in precise terms, the reform thinking expressed by the contract system is: To choose the benefit mechanism as the foundation for constructing the enterprise management mechanism under the precondition that the financial income indicator has been turned into a rigid one; and to enhance enterprises' consciousness and inherent motive power for obtaining growth in profit and tax through the increase in the proportion of the additional profit to be directly or indirectly retained by staff and workers. Enterprise managers still have more than one function to perform. However, since the contract system has enhanced the interrelated relationship among the state, enterprises, and staff and workers, the pressure resulting from the increase in the income of the state, and staff and workers has been centralized as the development target of enterprise management under certain conditions. In this way, the mechanism for motivating enterprises (managers) has been formed. At the same time, the management risks (mainly the risk that enterprises have to make compensation themselves when they fail to fulfill the annual tasks of turning over to the state a fixed amount of profit, and the risk that the total amount of the wages of staff and workers has to be decreased when the amount of profit and tax does) of enterprises have been increased after the implementation of the contract system. However, this is advantageous to the forming of a self-constraining mechanism. In short, the method for constructing the mechanism of the contract system of “two guarantees, one linkage” is to transform the internal (income of staff and workers) and external (financial income) pressure of enterprises into the inherent motive power for obtaining growth and for increasing economic returns in the course of production management; and to find an effective way for mobilizing the enthusiasm of enterprises and for promoting enterprise development.

## II. The Main Issues Concerning the Enterprise Contract System Which Must Be Studied and Solved

Of course, in the course of the operation of the economy, the defects and problems concerning the current contract system, its management, and other aspects have gradually been apparently reflected as the contradictions between the management of fixed quantity targets and the management of other changing factors. They are mainly:

1. There is no scientific, reasonable method for determining the basic contracting figures nor for implementation of dynamic regulation. In this way, a situation of unequal distribution of benefits and tasks among enterprises has resulted, to the disadvantage of advanced enterprises.

The fundamental principle of the contract system is that “the basic contracting figure should be fixed, the amount of profit to be turned over to the state should be ensured,

enterprises and the state share profit exceeding the contracted amount, and enterprises themselves have to pay to the state the difference between the contracted profit which they have not achieved and the actual profit." From this we can see that the foundation of the entire contract system is how to determine the basic contracting figure. The amount of profit fixed by the basic figure in fact determines the distribution of benefits between the state and enterprises. If the basic figure is set too high, some advanced enterprises will collapse, and a disadvantageous situation results. If the basic figure is set too low, the benefits of the state will be reduced, and some enterprises, which have achieved poor results, will be able to fulfill their targets in an easily. This in fact will protect backward enterprises. There are three reasons that have led to this problem in the course of the implementation of the contracted management responsibility system. 1) In most cases, the bodies which signed responsibility contracts are immediate upper-level departments in charge of the enterprises. These department also bear the risk of contracting. In order to avoid and to lower risks, they will naturally try to fix a lower basic figure to leave some margin. 2) An absolute number of responsibility contracts were signed between the government department in charge of enterprises and the factory director (manager) after one to one negotiation. Since the government departments and the factory directors will not be able to grasp precisely the trend of market changes and price changes, it is inevitable that the contracts will involve a greater degree of subjective will. The final results will usually be that who can win in the negotiations will gain better benefits, and the factory directors who can bargain with the departments in charge of the enterprises will gain better terms. 3) The "historical method" has usually been used in concretely estimating and in determining the basic contracting figure. This is to use the amount of profit and tax or the amount of profit turned over by an enterprise to the state in the preceeding year (or the average amount of that in the preceeding 3 years) as the basis for determining the basic contracting figure and the progressively increasing proportion of such a figure. This operation method, which relies on the vertical comparison of the practical achievements among enterprises and does not have precise estimation of the development trend, has often enabled some enterprises, which were originally poorly-managed or had a low production level, to achieve a higher growth rate and to get higher returns after the implementation of the contract system. This is because the basic figure has been set too low for these enterprises. On the other hand, it will be difficult for the enterprises, which originally have already achieved a high production rate, to achieve higher rate of growth. In this way, the benefits that these enterprises will gain after contracting will decrease.

The second problem encountered by the practice of fixing the basic figure is: Even though a relatively reasonable basic figure is fixed, the basic contracting figure of enterprises will be invisibly and relatively increased. This results from the great changes in the external

conditions of enterprises. Such as the increase in the price of raw materials, the increase in the interest rate, changes in the exchange rate, introduction of new taxes, and other factors that will decrease enterprises' profit. Moreover, an essential regulatory means to handle the increase in the profits and taxes achieved by the method of substantially increasing product prices is lacking. Therefore, the search for a reasonable method to eliminate unreasonable influences on enterprises at the time when they have fulfilled the contracts, is also a problem concerning the management of responsibility contracts, and this has not been effectively solved.

2. The constraints on the targets of the practice of "two guarantee, one linkage" have not been evenly distributed. The constraints on the targets of the "two guarantees" have become weak, and an effective assessment method and an effective management method are absent. The practice of "two guarantee, one linkage" mainly involves three targets: First is the profit and taxes to be turned over to the state by enterprises; the second is investment in technological renovation projects; and the third is the total amount enterprises' wages which are determined by the amount of profit and taxes achieved. After adoption of this practice, the constraints on these three targets has been varied. For managers, the most rigid target is wages. For a considerable number of enterprises, the pressure pushing them to fulfill the first target comes from the fact that this is the basic indicator of the fulfillment of contracts, and pressure also comes from the fact that it can determine the magnitude of the growth of wages. In this way, the constraints on the second target have weakened.

The weakening and fulfillment of the second target are not simply determined by enterprises. The time period when plans are fixed, when projects can be approved, whether enterprises can get loans in time, and whether they are sufficient or not, and other factors can affect the launching and the result of projects. Although many enterprises have retained profit after the implementation of the contract system, and the amount of funds owned has also increased, a large number of enterprises still rely on loans for investing in technological renovation. Besides, inflation has also brought about a contradiction between the quota amount of funds and the amount of funds required for launching projects. A time lag between the progress of the use of investment funds and the progress of the fulfillment of projects has resulted, and some contracted projects have not been completed in accordance with schedules.

We hold that the answer to these problems is not simply the solving of management problems. We should first study the target options, and discover a comprehensive criterion for assessing the asset management situation of enterprises, and for assessing enterprises' development reserve strength. To guarantee technological renovation we must enhance enterprises' reserve strength for development. However, this is not simply determined by the

amount of fixed asset investment, but also by the enterprises' ability to develop new products, their technological level, the reputation of their products, their ability to handle changes, their self-readjustment capability, and so on. The assessment of the practical results achieved by enterprises and the changes in the level of the returns obtained are of great significance to their development.

The variation in the rigidity of contract targets has brought about an acute problem. This is that a mechanism for overcoming the short-term behavior of enterprises has not been formed, and the rigid target can thus make the constraints on the flexible targets weaker. Moreover, individual managers will use incorrect means to exchange their assets for the fulfillment of contracted targets. According to investigations carried out by related departments, 21 percent of the 270 enterprises which signed responsibility contracts in 1988 incurred losses, and have reported false and incorrect profit amounts. An profit amount of some 9 million yuan reported by these enterprises was in fact false.

3. The method and regulatory practice of linking wages with returns has been excessively affected by the changes in the management environment of enterprises, and price increase.

In reality, the practice of linking wages with returns has played an important role in the enterprise motive power mechanism. However, since the problem of how to precisely and objectively assess enterprises' returns has not been solved, the current practice of linking wages with returns has also encountered some difficulties. On the one hand, the increase or decrease of the profits and tax achieved has been excessively affected by the external environment, and the rate of profit and tax and funds of some enterprises have been decreased year by year. At the same time, the retail commodity price index has been substantially increased. (That for Beijing in 1988 was 21 percent, and in 1989 was about 18.5 percent.) The increased amount of the wages obtained by a considerable number of staff and workers has basically played a supplementary role in maintaining the income level attained by them in the preceeding year. In 1989, due to the decrease in economic returns, the number of enterprises in which wages fell substantially increased, and the contradiction has become acute. The rigidity of the income of staff and workers has brought about difficulties in decreasing wages. This problem is also related to the sensitive issue of social stability and of enterprise stability, and there are great difficulties in readjusting related policy. In the period of readjustment when there is sluggish economic growth, handling the relationship between the difficulty in substantially increasing wages and the issue that wage has to play a motivating and protective role, has become another difficult task in handling contracting work.

Solving the above-mentioned three problems has become the basic task in perfecting, and in developing the industrial enterprise contract system in the course of deepening enterprise reform.

### III Options Concerning Enterprise Reform at the Present Stage, and the Perfection and Development of the Contract System

Over the past year, to achieve the targets of the policy of improving the economic environment and rectify the economic order, the enhancing of macroscopic management and of external constraints on enterprises have been adopted. Given the tight money supply and a weak market, enterprises have faced a difficult situation. The contracts made in the period of the "Seventh Five-Year Plan" will be fulfilled at the end of 1990. Promoting enterprise reform when improving the economic environment and rectifying the economic order, and during the "Eighth Five-Year Plan" period, has become a practical issue. This issue is that thinking should be clarified and plans should be formulated as soon as possible.

1. Options for the main form of enterprise reform at the present stage.

With the adoption measures aimed at checking demand by using the practice of "double contractions" as the main means, and the intensification of planned management, the following inevitable changes have resulted in many enterprises. 1) The external constraints on enterprises have been enhanced, some powers have been cut, and control over them has been enhanced. 2) The state has adopted measures to increase the "two proportions," market changes have increased enterprises' difficulty in transmitting the factors that will decrease profits; and the proportion of the profits and the actual benefits really obtained by enterprises have decreased. 3) The process of forming a market for the means of production has been slow, and adverse changes have occurred in some aspects. Under such a situation, the results and the role of the contract system have naturally been constrained and limited by objective conditions.

We should have seen that under the situation where obvious changes have emerged, and in order to achieve the targets of the policy of improving the economic environment and rectifying the economic order, the question of whether a new option should be chosen for enterprise reform will naturally be raised from many aspects. It is also inevitable that there will be exchanges and clashes between different views and thinking. In order to find an answer to this question, research should be carried out in two aspects. First, how to define the basic thinking for implementing the reform at the present stage. Second, is it possible to generally implement the reform in a new form under the practical conditions in the period when the policy of improving the economic environment and rectifying the economic order is being implemented?

On the guidance directions of enterprise reform, two main viewpoints have been put forward in recent years. The first viewpoint considers using the role of the benefit mechanism as the basic line to enhance the development motive power and vigor of enterprises, and to promote reasonable behavior through perfecting the contract



system and other management forms. The second viewpoint considers using the reform of property relations as the basic line to fundamentally solve the problem of the lack of a mainstay in enterprise operation.

Undoubtedly, the study of socialist economic property relations will have important theoretical implications. However, in view of the present social and economic environment, the feasibility of focusing on the benefit mechanism as the basic line is greater, and it has the practical operating foundation and objective conditions. Therefore, we hold the view that in the present and future period, the reform of industrial enterprises will still regard the benefit mechanism as the leading line. Moreover, the production management relations, the relations of benefit distribution, and other benefit relations should be reasonably regulated and standardized. The relationship between unanimous benefits and benefit contradictions should be handled well, and the dynamic and constraining role resulting from the practice of benefit seeking should be used effectively.

In determining enterprise reform in future years, another constraining condition should be taken into consideration: The general situation and the basic trend of economic operation and development. When the policy of improving the economic environment and rectifying the economic order is being implemented, enterprise reform has to follow central tasks and there will be no changes in the form of enterprise reform. This is obtained from viewing the situation from a reform angle. In the aspect of improving the economic environment and rectifying the economic order, and in order to ensure the stability and development of the national economy in the period when this policy is being implemented, the relationship between a relatively stable policy and form of the reform on the one hand, and the operation and development of the economy on the other, should be taken into consideration. The emergence of unnecessary shocks should be prevented. The phenomena that emerged in the second half of 1989 already illustrated that a relatively stable form of reform, and relatively stable reform measures and policy are also important means for stabilizing society and the economy. When the economy has lost the essential stability and growth rate, the increase in the proportion of financial income will have no meaning. The perfection and development of the forms of reform, which are advantageous to economic development, on the foundation stressing policy continuity and stability, is the essential guarantee for achieving the objectives of the policy of improving the economic environment and rectifying the economic order. We hold the viewpoint that the implementation of the contracted management responsibility system in the main form of "two guarantee, one linkage", which has been generally implemented in the industrial system in Beijing since 1987, was an important step taken in promoting industrial enterprise reform. The practice of the enterprise contract system has also laid a new foundation for China's reform in the future. At the same time, we should have seen that the insufficiency of the

current forms of contracting become acute when conditions change. Therefore, to continue to perfect and develop the system is not only the objective requirement for deepening enterprise reform, but is also the objective requirement for consolidating and for being persistent in the implementation of the contract system.

## 2. Options for perfecting the enterprise contract system.

In the course of practice, the focus of the contract system has been changed from aiming at ensuring the financial income of the state to one emphasizing the establishment of a sound enterprise management mechanism. The study of measures and related policy to be taken in the next step in perfecting the enterprise contract system should proceed from the following basic guidance thinking:

- (1) The measures and related policy should be advantageous to aiding enterprises develop themselves from being concentrated on achieving a high growth rate to obtaining returns; and they should help transform enterprises from being dependent on policy for achieving development to being dependent on scientific and technological progress.
- (2) The measures and related policy should be advantageous to aiding enterprises deepen internal reform, to increase management level, and to strengthen their ability to handle emergencies and their development capability.
- (3) The measures and related policy should be advantageous in aiding the government to raise the degree of standardization and to strengthen its management of enterprises, and for the government to raise the adaptability and the regulation and control [tiao kong 6148 2235] level of related policy in handling dynamic changes.

There are no objections to the directions set by these principles. However, there are different viewpoints on the understanding of the way and the form through which these directions are to be reached. At present, the main divergence is over whether the practice of "turning over profit and tax separately to the state, making contracts after paying tax, and repaying loans after tax payment" is to be generally adopted or not.

According to the specific method of adopting the practice of "turning over profit and tax separately" on a trial basis, the profit tax to be paid by enterprises has been lowered and it has no longer been put under the contract target. In this way, there have not been many changes in the total amount of profits and taxes to be turned over to the state by enterprises. The problem is: First, the amount of profit to be contracted by enterprises will apparently be reduced, a considerable number of enterprises in fact will not have any after-tax contract target to fulfill, and the scope within which the contract system can be implemented will be reduced and the role of the contract system will apparently be weakened. Second, the adoption of the practice of repaying loans after tax

payment will make the problem of the contradiction between the amount of money turned over to the state and the amount of development funds more difficult to handle, and the self-development capability of enterprises will generally be weakened. The nature of the practice of turning over profits and taxes separately is to separate profit tax from contracts. In this way, the proportion of the profit to be shared by enterprises will be decreased. At the same time, the pressure on enterprises will also be reduced. Where there have been too many changes in the external environment, the reduction of pressure on enterprises will bring advantages. However, the problem lies in that as the mainstay of enterprises is not independent, they will have to rely on external pressure to obtain inherent motive power. The practice of "linking wage with returns" can also play such a role. When the practice of turning over profits and taxes separately is adopted, the practice of linking wages with returns will become the main motive power carrier. However, in this case the following problems will occur: First, the variation in the rigidity of contract targets will be enlarged, enterprises will have short-term behavior, and the problem of weakening constraints on the second guarantee target will become serious. Second, the present difference between the original value of enterprises' assets and the cost of replacing them is large, and their depreciation period is rather long. If the practice of "repaying loans after tax payment" (the interest rate is excessively high) is adopted, some enterprises will have difficulty in maintaining simple reproduction. In general, the operating and development of industrial enterprises will rely very much on bank loans. The present difficulty, which has not been solved, is that when enterprises are unable to repay overdue loans and when the amount of their assets is insufficient to repay them, how will banks calculate and get back their credit funds? "Weak budgetary constraints," and "fatherhoodism" are still the fundamental factors leading to a weak enterprise constraining mechanism.

It is essential for the state to appropriately increase the proportion of financial income in the national income, and to increase the proportion of financial centralization. However, only when the benefit relations can be handled well, and when the role of the benefit mechanism can be enhanced, not weakened, can the readjustment of such proportions promote aggregate quantity growth and vice versa. Otherwise, effects disadvantageous to economic development will result. On this basis, we consider that the practice of "turning over profits and taxes separately" will play a role in appropriately adjusting the proportion of tax to be paid to the state, in standardizing the channels for benefit distribution, and in constraining enterprises' investment impulse. However, this practice will substantially affect the current contracting methods. As new forms of enterprise reform which can achieve results are lacking, it is inevitable that some negative effects will be brought about. Therefore, in the coming years, such practice should be adopted on a trial basis according to enterprise conditions, and should not be comprehensively adopted;

we should not aim at getting quick results in one step. In short, we should have realized that the solution of many problems will require promotion and coordination among the reform measures adopted in many aspects, and a longer time period. Besides, the optimization of the overall development situation is determined by the transformation of the development model of industrial enterprises from one focusing on obtaining a high growth rate, to one on obtaining returns.

### 3. The specific measures for perfecting and developing the industrial enterprise contract system.

There are many difficulties in implementing the enterprise contract management system in a continuous and persistent way. The macroscopic environment at present is very much different from that several years ago. The contract system was previously implemented in an environment where the economy was over-heated, power had been decentralized to enterprises, and the policy had been clarified. At present, the contract system is being implemented when the economic development rate has apparently decreased, and policy is being adjusted. In formulating specific measures for perfecting the contract system, the problem of how to enable it to adapt to the changes in the overall situation should be taken into consideration.

According to the above analysis on these problems, we consider that in perfecting the industrial enterprise contract system in the form of "two guarantees, one linkage," focus should be placed on studying the following measures:

(1) A scientific and reasonable method for determining the basic contracting figure should be explored in accordance with realities.

The most fundamental problem as well the most difficult task concerning the contract system is still the problem of how to determine the basic contracting figure. The core of the problem lies in handling benefit relations, reasonably constructing a method for distributing and regulating the additional amount of benefits, handling the relationship between financial income and enterprise development, and handling the benefit relationship between the state, enterprises, and staff and workers. We hold the view that the fundamental way to handle the above-mentioned relations in the course of contracting is to make an effort to determine in a scientific and reasonable way, the contents and the targets of enterprise contracting. We have analyzed in the above paragraph, the problems brought about by the "historical method." If the old method is still to be generally used by enterprises, the current problems will naturally continue to exist. With the passing of time, these problem will become more acute. Moreover, since the basic figures stated in contracts are the result of compromise, the "one to one" negotiation has in fact become a regulatory method in the course of contracting. Of course, it is not possible for us to precisely calculate one by one, the growth of enterprises and to forecast the fluctuations

that may occur. We can only take the basic normal development trend as the basis for determining the basic figures. Therefore, even though a reasonable method is adopted for determining the basic figures, it is necessary to have dynamic regulatory and management means. However, a standardized and clearly defined regulatory method will need a scientific method as the foundation for determining the basic figure. Over the past two years, many areas have been exploring policy measures for making good the "after-regulatory" policy which is currently being implemented. However, no method that can be easily and generally adopted has been found. The scope covered by such a policy has been expanded, and this has brought about disadvantageous effects on the execution of contracts.

We hold the view that in determining the basic contracting figures, the following two points should be taken into account: First, the contents of the contracts should be appropriately standardized, and in principle, the practice of contracting the amount of profit and tax to be turned over to the state should not be adopted. Second, according to the situation and conditions of different enterprises, the method for determining and regulating the basic figure, which can reflect the following thinking, should be positively explored and upheld on a trial basis. They are: a) By making reference to lateral comparison, only the enterprises which can achieve a high level of economic returns in their industry can obtain more benefits. b) The policy of dynamic regulation which has been standardized and has been made clear should be implemented, and the practice of simply fixing the basic figures and realizing the targets of the regulatory policy should not be adopted. c) A method for determining the basic figures and a method for distributing the basic figure should be designed in a comprehensive way, and enterprises should be guided to take the initiative to choose a distribution level they can reach. In view of some concrete methods which have been adopted on a trial basis over the past two years, we consider that the method that can meet the above-mentioned criteria is one for exploring some methods which can put the assessment of the input-output benefits of enterprises under the realm of basic figure determination and regulation. For instance, these methods include: The method of differential profit ratio contracting, the method of indexation contracting, and so on. The difficulty in adopting these methods is how to determine the "reference index" for assessing the level of returns achieved by enterprises, that is to find out the realm and method for carrying out lateral comparison. The operational difficulty will in particular, be greater when comparison has to be carried out among enterprises in the same industry in the same area, while the number of large-sized enterprises of this kind is very small. Furthermore, enterprises which have achieved a low level of returns will not voluntarily choose these types of method. If these types of methods are to be adopted in a group of enterprises on a trial basis, they have to rely on essential administrative means for promotion. In view of the operational difficulty, it is impossible to extensively adopt these types of

methods at the present stage. However, this thinking has provided a correct direction for enabling the contract system to develop toward a new level. Therefore, we should positively select some medium and small-sized enterprises to adopt these types of methods on a trial basis. The basic method for handling most large and medium-sized enterprises will not be substantially changed at the present stage. However, enterprises should be guided to take the initiative to enter a contracting level where their risks will balance their benefits, through the overall design of the repaying and linkage proportions. The practice of making contracts at different levels should not simply become a sub-target, and diversified exploration should be combined in an organic way with the overall contracting practice in accordance with the contents and characteristics of the practice of diversified-level management. At the same time, a standardized target regulating method should be established in accordance with the trend and conditions of economic development.

(2) The function and the role of the contract system in promoting enterprise development and in raising the management level of enterprises should be consolidated.

To put enterprise development under the realm of contracting assessment through the form of the practice of "two guarantees" is one of the characteristics of the contract system implemented by the industrial enterprises in Beijing. This has reflected the thinking of comprehensively taking into account the present needs and future development. We consider that in solving the problem that the "constraints on the two guarantee targets have become weak" in the course of contracting, we should proceed from the following several aspects: First, the relationship between the comprehensive effects of the main contracting targets and the rational behavior of enterprises. The analysis of the problem of the variation in the rigidity of the contracting targets, and the problem that the constraints on the targets of the "two guarantees" have become weak, have been presented in the above paragraphs. The subject of this analysis is on the structural relationship among various targets. If the contradiction between the quota amount of profits, which is fixed by the first guarantee target and to be turned over to the state, and other variables is taken into account, then we should also have seen the situation in which the targets, which have been rather rigid, are also exerting unequally-distributed and unstable pressure in lateral and vertical directions. The trend and the changes in pressure will inevitably affect the motive power and behavior of enterprises. The consolidation of the development objectives, the motive power, and the capability of enterprises are not only determined by material and technological conditions. They are determined by the more important factor—the construction and growth of the inherent mechanism. Therefore, the achieving of the consolidation of the self-development consciousness, the motive power, and the capability of enterprises should not only rely simply on the perfection of the method for assessing and managing the targets of the "two guarantees," more attention should be paid to the role and the

overall function of the contract system. Second, the choice of targets. Which targets regarding the development of enterprises should be considered in a centralized way? Or, which targets should be assessed and the fulfillment of which targets should be rewarded so that the increase in the overall development level of enterprises can be promoted? The concept of the amount of investment made by enterprises is different from the concept of investment results. The development reserve strength of enterprises is not only determined by the renovation of technology and the amount of funds invested in technological renovation. The assessment of development also involves assessment of the skill level, technological level, ability to develop new products, goodwill, and other aspects of enterprises. These aspects are however, related to the management level. Third, how to formulate specific methods for assessing, rewarding, and punishing enterprises.

We hold the view that although the method of putting technological renovation as a term stipulated in the contracts can be adopted in a continues way, it will not be a sufficient method. This is because it is not the fundamental or the only assessment criterion. The main direction in which the practice of "two guarantees" is to be made perfect should, on the basis of how to conduct comprehensive assessment of the technological progress of enterprises, be on inducing them to regard the upgrading of the quality of their products and the increase in economic returns as the main way to develop; and enhancing the competitive capability of enterprises in the market. Under the present conditions, it is not possible to adopt a standardized method to handle the "two guarantees" targets. However, the method of determining corresponding contents and the methods of contracting assessment in accordance with the different conditions of different enterprises, and giving different guidance to different categories of enterprises, may bring better results. For instance, the ability to develop new products, product quality, increase in the value of state-owned assets, profit and tax ratio of funds, and so on, can be taken as the main indicators for assessing the development level of enterprises. Moreover, the task of contracting management should be effectively combined with the task of economic organization and system management to form a more effective management method, and to give better play to the role of the head office (bureau, branch) in the aspect of industrial planning and development. The contents of the "two guarantees" will vary in the adoption of the practice of contracting at two levels, the contents of contracts to be concluded with different enterprises will be different, and the assessment and management methods will also vary under different environments. Superficially, the method of rewarding and punishing enterprises in accordance with the results of the assessment of the management returns to the assets of enterprises and their development level can be adopted.

(3) The method of appropriately standardizing contracts.

Practice proved that the granting of a certain degree of regulatory power to the head office for handling work related to contracting can play a positive role in ensuring fulfillment of overall contracting tasks, in carrying out essential adjustment on some specific problems, in solving the problem of diversification of the production development funds, and so on. However, in the course of practical operation, complicated problems will be involved, and the relationship between the regulatory power and enterprises' power of making independent decisions should be handled in an appropriate way. From now on, the regulatory means used by head offices and the limitation of their power should be appropriately standardized, so that a set of complete methods for regulating and control [tiao kong 6148 2235], and managing enterprises at different levels can be formed. Moreover, attention should be paid and preference should be given to the "pre-regulatory" measures, which are clearly defined, and the "after-regulatory" measures which involve individual discussion on individual cases, should be avoided. This is also of help in coordinating the relationship between contract management and the execution of related economic laws and regulations.

(4) The coordinated internal and external reform of enterprises, which is related to the contract system, should be promoted and made perfect.

The experience obtained from practice proved that the results of a reform is related to the question of whether these results can match with the reform of related aspects, and can form a structure which can promote each other or not. The divergence in the situation of enterprise management which emerged under the same form of contracting also illustrated that it requires the coordination between some essential conditions and factors for the contract system to give play to its role; in which, the most important conditions are the basic quality and the overall level of enterprise management. The rise in the operation and management level of an enterprise does not only simply and naturally rely on the pressure exerted on it by the contracts it has concluded. It will require coordination from the adoption of corresponding reform measures and from the carrying out of basic tasks. Special attention should be paid to the handling of the coordinated measures in the following aspects; and the reform of the enterprise system should be perfected and developed in the course of steady transition and coordination: a) The system of selecting and appointing managers should be perfected, and the contingent of managers should be further optimized. Work related to this point should proceed from the following two aspects: First, in accordance with the characteristics of the system of contracted management responsibility, scientific management methods for assessing and evaluating the quality of managers should be explored in a continues way, and a system for managing enterprise managers which has an optimal mechanism should be established. Second, the personnel recruitment procedures and practice, and the procedures and practice for inviting tender should be made perfect,



the policy should be made clearer, and the reasonable nature of policy should be increased. b) The reform of the internal personnel labor system and the internal distribution system of enterprises should be handled well in a continuous way, and the awareness of risk and competition should really be made the foundation of the motivating and constraining mechanism. Besides, the problem that the system has become a formality, and the problem that excessive emphasis has been given to quantity in the practice of optimizing various types of combination, and so on, should be overcome. This is to enable the internal enterprise reform to play its role in enhancing scientific management and in regulating enterprise behavior. c) The forms of internal contracting should be chosen in a correct way. According to practical experience, it is not suitable for enterprises, which are the organic bodies of production management, to generally adopt the form of management contracting in an enterprise. The internal contracted responsibility system and the management evaluation methods, which are of help in consolidating overall management and in increasing the economic returns of enterprises, should be positively explored, and the problem of "replacing management by contracts" should be overcome. d) The construction of a democratic system in enterprises should be enhanced to arouse the concern of staff and workers about the management and development of enterprises. This problem in fact has not been generally nor effectively solved. The problem of who is the mainstay of responsibility, emerged after the implementation of the contract system. Over the past 10 years since the reform was launched, there have been great changes in the guidance direction of the behavior of factory directors (managers). However, how to establish the group effectiveness of staff and workers on the management and development of enterprises is still a difficult task in establishing a socialist enterprise system. Lessons can be drawn from the exploration of all-people contracting. The forming of an enterprise democratic system which can match the present situation of social and economic development has still to be continuously explored and tested in the course of practice in the future.

In short, the fundamental focus of the policy of perfecting the enterprise contract system should be placed on enabling the contract system to play its role in a more effective way in constructing the inherent motive mechanism of enterprises, in regulating enterprise behavior, and in promoting economic development. Here, we have to stress that social and economic development is a result of mutual influence between the reform and many factors. In the practical course of the implementation of the reform, the expectation of solving all the problems disadvantageous to development through the implementation of the contract system, or the viewpoint which considers that the perfection of the contract system will have no significant implications, are not advantageous nor will help us correctly promote enterprise reform at the present stage. The vitality of the enterprise contract system is mainly determined by the factor of whether it can continue to develop in accordance with objective

conditions and practical experience or not. When the principle of proceeding from practical foundation and conditions can be adhered to, and when reform will not only be implemented in accordance with the existing form, enterprise reform will then be able to develop toward a new stage. The path of reform is still very long. Enabling industrial enterprises to become commodity producers and managers who can face domestic and foreign markets, and who become the microscopic operation mainstay which has the ability to make independent management decisions and achieve development, is still a fundamental problem to be continuously explored and solved in the course of reform.

### Impact of Rectification on Capital Goods Market

90CE0296A Beijing JINGJI LILUN YU JINGJI  
GUANLI [ECONOMIC THEORY AND BUSINESS  
MANAGEMENT] in Chinese No 3, 28 May 90 pp 34-38

[Article by Tian Daigui (3944 0108 6311) and Wu An (0702 1344), researchers, Chongqing City Academy of Social Sciences' Institute of Economic Management; and Wang Zhenyu (3076 2182 3768), cadre in Chongqing City's Bureau of Materials and Equipment; edited by Wang Bifeng (3769 4310 1496): "On Rectification and Improvement and the Development of the Capital Goods Market"]

#### [Excerpt] I. An Evaluation of the Characteristics and Effects of the Current Rectification and Improvement Measures

##### 1. The Characteristics of the Current Rectification and Improvement Measures Pertaining to the Capital Goods Market

Since last year, the State Council and various departments of the central government have handed down nearly 500 documents on rectification and improvement. Statistics show that more than 90 percent of the measures are administrative in nature. So far as the several important documents directly related to the rectification and improvement of the capital goods market and the circulation of capital goods are concerned, not only do they have a strong bureaucratic flavor but there are clear traces of the old management methods.

First, let us look at the measures to strengthen planned management. Today, strengthening planned management has become an important part of the rectification and improvement of the capital goods market. The measures already promulgated are concentrating in three areas: One, they emphasize the implementation and enforcement of mandatory planning; two, they put into effect the special management of key factors of production that are relatively scarce in the market; three, they carry out fixed-point rationing of some goods and materials not under state plans. To say that emphasizing the enforcement of mandatory planning generates a binding force that strengthens the existing planned allocation of goods and materials, then special management and



fixed-point rationing put some of the capital goods which have just been decontrolled back into the planned allocation channels. For example, besides designating specific units to manage the capital goods which are under special management, it is stipulated explicitly that "the state will allocate them centrally, and their production and sales must be arranged in person." As another example, it is also stipulated explicitly that the State Planning Commission will set quotas for goods under fixed-point rationing, and their production and purchase are to be arranged with the Department of Materials and Equipment in person.

Second, if we look at the way prices are being managed, the rectification and improvement measures directly affecting the price of capital goods are focusing on the following elements: They emphasize that goods and materials under mandatory planning must adhere to the mandatory prices and fees set by the state; price ceilings are set for key factors of production not under state plans; the newly-introduced maximum prices and the existing mandatory prices are strictly enforced; meanwhile, enterprises' right to set prices has been rescinded. These measures demonstrate that the state has put the management of capital goods prices back onto the track of state-set prices and direct administrative control. The so-called maximum price and guidance price are nothing more than inflexible planned prices.

Third, let us look at the management of the circulation channels. Currently, management of the circulation channels consists of the following elements: One, efforts are expended to strengthen the planned allocation and supply channels. Measures including special management and fixed-point rationing are ways to expand the scope of direct, planned allocation and supply. Two, efforts are expended to enhance the role and status of the state-run commodities enterprises as the main circulation channel by excluding or eliminating other business channels. This includes the weeding out of some companies in the capital goods business, re-examining and setting new operating standards, and designating specific management units for more than 20 types of key factors of production. Three, there are explicit stipulations on whom the enterprises designated to manage the key factors of production may sell their products to. These methods clearly display the characteristics of administrative control.

Fourth, let us look at the management measures to strengthen the capital goods market. One, they define the nature of the market institutions and give them certain state administration and management functions. For example, it is stipulated that the market institutions are to be run by the Bureau of Materials and Equipment, that the market's service organizations should be service-oriented, that it requires a special market seal to participate in the market transactions, and that the market institutions have the right to scrutinize, and to approve or disapprove, the business conduct of units taking part in the market transactions. Two, there are explicit regulations on the types and the sizes of market institutions

the localities can set up as well as what kind of capital goods are to be transacted in which market and who may take part in the market transactions. Three, there are explicit regulations on what kind of transaction is deemed legal or illegal and the conditions which must be met to make a transaction legal. The market that emerges from the above-described regulations basically is a state-controlled, government-dictated capital goods market.

## **2. An Evaluation of the Effects of the Rectification and Improvement Measures**

The above-described rectification and improvement measures play a very positive role in rectifying order in the capital goods market and circulation channels. Their effects are seen mainly in three areas: One, by weeding out some companies, many unnecessary middle links have been eliminated. Two, by standardizing the way enterprises behave in a transaction and restricting the locations where the exchanges can take place, it has curtailed many illegal business activities. Three, by strengthening economic planning and price management, it has made the allocation of goods and materials under mandatory planning more authoritative.

But because rectification and improvement depend too much on the traditional means of administrative control such as planned allocation and state-set prices, there are obvious negative effects. Specifically:

*One, regional separatism and local protectionism obstruct the formation of a unified market.* In strengthening the role of the state's mandatory planning, both the types of goods and the quantity of goods put under planned allocation (special management and fix-point rationing, etc.) have increased, and more prices are being set by the state (price ceiling and guidance price.) Many local governments have responded by increasing local protection and putting up resource blockades. For example, Sichuan Government (1989) Document No. 125 stipulates that, "The five nonferrous metals, iron, aluminum, lead, zinc, and tin, produced in Sichuan generally are not for sale outside of the province. Out-of-province sale necessitated by compensatory trade, joint-venture, cooperative-venture, joint-stock operation, and inter-province cooperation or for processing goods must have a 'railroad transport plan' and carry the 'Sichuan Non-ferrous Metal Seal' and a 'transport permit' before the railroad and transportation departments will allow the goods to pass through." Other localities have imposed similar restrictions. Regional blockade obstructs the lateral flow of capital goods and affects the exchange of information and the regulation of goods and materials to balance surpluses and deficits. Often, certain goods are overstocked here but are running short elsewhere. This not only becomes a man-made factor that heightens the supply-demand conflict but it also obstructs the formation of a unified market.

*Two, the government's administrative and management functions have increased while the regulatory effect of the*

*market mechanisms has diminished.* "Special management" and "fixed-point rationing" introduced during rectification and improvement are in fact means to restore the old allocation and supply system, and the "price ceiling" and other measures are in fact a way for the state to wield direct control over prices. These practices impose a man-made restriction on the development of the market and the growth of the market mechanisms, throwing the economy back to the old system with its vicious cycle where more concentration leads to more shortages and more shortages lead to more concentration. Basically they not only cannot ease the market supply situation but actually intensify the supply-demand conflict.

*Three, the market entities are taking on more administrative functions or are becoming more dependent on the government; their commodity management functions are impaired.* Looking at the commodities enterprises, while the government has strengthened its management of the key factors of production, it has once again given the state-run commodities enterprises some administrative power and special management authorities. For example, the implementation of special management of steel products and other goods is dependent entirely on the state's executive power to create a monopoly. This turns the commodities enterprises into both government and business, aggravating the problem of mixing government and enterprises. Looking at the commodities production and consumption enterprises, on the one hand, they have lost the right to make direct sales and set prices; on the other hand, more of the raw materials are being allocated by state plans. Under the circumstances, enterprises must once again depend on the higher-level administrative departments, impairing their commodity management functions; in fact, they are losing the status they gained through reform which established them as the main players in the market transactions.

*Four, setting a maximum price is a serious violation of the law of value; it obstructs the market's normal development.* So far, the state has set maximum prices on several occasions. We have discovered that maximum prices have their inherent problems: Some price ceilings are too high, artificially raising prices; some ceilings are too low, leaving the producers with little or no profit. Setting a maximum price violates the rule of higher price for better quality. In fact, some quality products are priced below the shabby products, so that prices are no longer a reliable signal and do not reflect the supply-demand situation in the market; as a result, the market can no longer correctly guide the supply and demand mixes. The fact of the matter is that China does not have an absolute shortage of most commodities; there are indeed relative shortages (or structural shortages). More often, the shortage is due to the production distribution and excess consumption. Compared with the well-developed countries, we indeed expend a lot of resources. Even in a vertical comparison, our resource consumption has been increasing. Take the situation in Chongqing City for example. In 1987, it took 5.08 tons

of coal to generate the energy to produce 10,000 yuan's worth of industrial output; between January and September 1989, it has increased to 5.282 tons. This is not a problem that can be solved by setting maximum prices; instead, we should decontrol the price of capital goods in the market. Otherwise, we will never be able to resolve the supply-demand conflict or attain market stability, nor will the market sustain healthy development.

## II. The Crux of the Capital Goods Market's Problems

In recent years, the circulation of capital goods has indeed been plagued by many problems. For example, the state plan and contract completion rate has been falling steadily; there is a serious shortage of certain key factors of production; prices are soaring; there are too many middle links; illegal transactions are rampant. All these are but the superficial phenomena. What are the deep-seated causes of the capital goods circulation disorder? It is our opinion that, besides the imbalance in total supply and demand and the sharp structural conflicts, the capital goods market is also plagued by the following problems:

**One, the inherent defects of the planned allocation system intensify the supply-demand conflict.** In recent years, China's capital goods market has been facing a sharp conflict of inadequate total supply and serious structural imbalance on the one hand and a rapidly growing stockpile of capital goods on the other. For example, in 1987, we had a stockpile of 30.79 million tons of steel nationwide, sufficient to supply more than seven months' consumption. This represents a net increase of more than 15.30 million tons compared to 1983, increasing at an average rate of around 3 million tons a year over a five-year period, which is comparable to the rate of increase in the country's steel production. In other words, almost all the steel produced in recent years has been put into storage. This not only takes up large amounts of current fund and a lot of facilities and land and entails substantial storage fee and maintenance fees, but it also becomes a man-made factor which heightens the supply-demand conflict in the market. One of the main reasons behind this is the inherent flaws of the planned allocation and supply system. The major defects of the planned allocation and supply system are: One, it breaks up the government into central versus local jurisdictions. This not only obstructs the circulation of information and blocks the regulation of surpluses and deficiencies but also causes every trade and every level to build up its stock of goods, and the commodities are dead-ended rather than circulated. Two, the way goods are being allocated and rationed is flawed. Orders for goods are sent out twice a year. This means if the producers are to guarantee the normal flow of goods, they must have six months or more of raw materials on reserve. Sending out orders first and producing the goods later lead to unrealistic demands and a supply of goods which does not always meet specifications, often resulting in the producers being stuck with the goods. This becomes a man-made factor that widens the capital

goods' supply-demand gap, which is especially true in the case of some scarce key factors of production.

**Two, using administrative means to restrict the movement of capital good prices is one of the main causes of the capital good circulation and market problems.** Administrative means are being used to restrict the movement of capital good prices in two ways: One, imposing mandatory prices on goods and materials under mandatory allocation; two, imposing a ceiling price on some important goods and materials not under mandatory allocation. Setting aside mandatory prices, so far as ceiling price is concerned, practice proved that its disadvantages far outweigh its advantages.

**Three, serious general management errors are the main cause of the intensified conflict in the supply and demand of capital goods and their circulation disorder.** The general management of the capital goods market is plagued by the following problems: One, the guiding ideology is still clinging to the traditional concept of exerting control whenever there is a shortage. Characteristically, we are still relying on simplistic mandatory planning and state-set prices (mandatory prices and price ceiling or guidance price) to manage certain scarce capital goods. This inevitably produces several drawbacks: (1) It violates the law of value, which not only does not mobilize the enthusiasm of the producers to produce more of the scarce goods and materials to increase effective supply quickly but, to the contrary, it tends to fan the consumption enterprises' overheated demand for the scarce goods and materials and artificially widens the supply-demand conflict. (2) Since the market is changeable, the general management department is thrown into passivity and must do damage-control in the aftermath, and it comes up with countermeasures only to find that the problem has already caused serious damages or the market situation has changed. Two, what should be controlled is not being controlled and what should be decontrolled has yet to be decontrolled. On the one hand, there are no practical and strict measures to guarantee the implementation of the mandatory allocation and supply plan for materials essential to the state's key construction projects. There are no effective measures to penalize people who disobey orders, who divert without authorization, or appropriate for their own use, goods and materials under mandatory allocation, or who raise prices and fees without prior approval. This makes the mandatory plans less compelling and less authoritative. On the other hand, for some important goods and materials which are not under mandatory planning and the production and sales of which have supposedly been decontrolled, the decontrol is in fact not complete. The situation where the State Planning Commission has handed down power but the various ministries at the central level are taking back power and the central government has handed down decisionmaking authorities but the local governments are taking back decisionmaking authorities is very serious. This phenomenon not only makes enterprises more dependent on the state but it also has an adverse effect on competition and on the separation of government and enterprises.

**Four, there are few rules to regulate the market and few reasonable standards to govern the market transactions.** Improving and perfecting a set of market regulations is necessary if we want to guarantee the rational, uniform conduct of the market participants and the steady and orderly development of the capital goods market. China's capital goods market regulations are very inadequate. This is particularly true in two areas: One, the systemic market regulations are inadequate. So far, we have not set up a complete legal system to protect property rights and clarify to whom those rights belong, nor do we have a system which defines the market boundaries and the identity of the market participants, and we also lack a legal system to curtail the use of power to conduct business or the development of the black market and the grey market and other irregular market practices. Two, the functional market regulations are inadequate. For example, capital goods market laws and regulations or rules, such as the "market transaction law," "market competition law," "market supervision law," and "law on capital goods exchange" which guarantee a fair market and equal competition, are unsound or inadequate. The related enterprise financial system is also inadequate. The bank's cash and account transfer and payment management systems are full of loopholes.

The above-described causes basically fall into one of two categories: One category is that the factors and forces of the new system which have emerged from the restructuring of the circulation system are still fragile and have not been able to budge or cause the disintegration of the old allocation and supply system. The chronic malady of the old system not only lingers but is constantly offsetting or curtailing the right kind of regulatory effects of the new system; meanwhile, it is also generating a negative regulatory effect on the circulation of capital goods and the way the capital goods market works. The second category is that amid the frictions produced by the rise and fall of the new and old systems, we have been lax with our basic management duties regarding the circulation of capital goods and the capital goods market itself and have neglected to set up the proper market regulations and legal system. These not only have intensified the friction and conflict between the old and new systems but have left many blank spots and dead spaces, leaving room to accommodate the improper conduct of individuals and enterprises. [passage omitted]

## FINANCE, BANKING

### Construction Bank Examines Monetary Issues

90CE0300A Beijing JINRONG SHIBAO in Chinese  
12 Jun 90 p 3

[Article by Wei Shigui (7614 0099 6311) and Li Honggang (2698 1347 0474), of the Construction Bank of China: "The Monetary Situation in the First Four Months of This Year, and Measures To Be Taken in the Future"]

**[Text] I. Need To Accurately Understand Present Financial Institutions**

The monetary situation over the first four months of this year is a continuation and development of the situation in the last half of last year. It appears when looking at macroeconomic conditions in the first quarter that inflation has been further brought under control, which will help to stabilize the economy. However, market sales went into a slump, industrial production dropped, and macroeconomic benefits were affected relatively severely. In the monetary arena, every category of savings rose. Personal savings continued their abnormal growth, greater amounts of currency were withdrawn from circulation, and the reserves of specialized banks rose. Funds were in relatively plentiful supply in comparison with the same quarter last year, when they were very scarce.

The situation does not justify optimism even though industrial production began to rebound in April, because sales revenues for industrial enterprises dropped 5.3 percent and sales did not improve, which caused enterprise inventories to continue rising while economic benefits to the state continued to fall. The downward adjustment of interest rates on savings and loans has yet to exercise any significant effect upon the monetary situation. The momentum of rising personal savings has not broken, and every category of savings is rising rapidly. The burden upon banks of excess reserve funds is growing heavier and heavier.

We must take note of the vicious cycle within the economy in which production funds are being converted (via the distribution of consumption funds) into personal savings, which then, in the form of operating funds, enter into the production sphere, where they are converted into inventory stockpiles that cannot be sold. More and more production funds are departing the production sphere in the form of piled up commodity inventories and personal savings, and the national economy is in danger of becoming "dehydrated."

The underlying cause of the current economic problems is the internal operating mechanism of the traditional economic system. First, national economic development is severely dependent upon growth in fixed asset investment, and fiscal revenues also depend upon expanding investments. This is due to the fact that for a long time, in our efforts to develop the economy, we have placed too much stress upon increasing production output value. Since the last half of 1988, the state has been carrying out a fiscal and monetary clampdown. It has rigorously controlled the scope of fixed asset investment and suspended or slowed the pace of several projects already under construction. The total quantity of fixed asset investments completed in 1989 was 50 billion yuan lower than in 1988. Adjusting for the price factor, the actual drop was 20 percent or more. Statistics indicate that about 40 percent of the fixed asset investments in China in that year were converted into consumption funds. Thus, reducing the scope of investment by only

one project will decrease consumption funds for the entire year by more than 20 billion yuan. When consumption funds are decreased, conventional economic wisdom holds that individual consumption and saving tend to decline. However, the portion of the reduced consumption funds used for direct commodity purchases dropped sharply and led to a market slump because prices for durable consumer goods rose too quickly, the state encouraged personal savings through high interest rates and value-protected subsidies, consumption during the current period was largely postponed, and purchasing power was converted too quickly into personal savings. The market slump for consumer goods caused a downturn for the consumer goods industry. The drop in demand for durable consumer goods, for which industrial goods serve as the raw materials, was particularly sharp. In addition, shrinking demand for investment goods, caused by reductions in the scope of investment, lead to a slump in the capital goods markets. For this reason, I believe that the reduced scope of fixed asset investments is the underlying cause of the market slump.

Second, the traditional regulatory mechanism characterized by concentrated distribution no longer meets the needs of the planned commodity economy. In order to alleviate the imbalance between total demand and supply (the former exceeding the latter) and to keep a damper on inflation, the state has carried out a rigorous policy of retrenchment since 1988, and this is completely correct. However, because the system of macroeconomic management still needs to be reformed more deeply, most of the retrenchment measures have been carried out by means of administrative measures. For example, the plan rather than funds sources has served as the basis for control of the scope of investment; planned quotas rather than reserve ratios have been used to control credit; and large-scale, sporadic methods rather than small scale, continuous ones have been adopted, so economic parameters have not fully played their key role. Inappropriate administrative regulation is another systemic reason why the market has gone into a slump.

Third, while working to eliminate the economic stagnation that has resulted from years of inflated demand and excessive distribution of income, we have not found a feasible vehicle for absorbing losses or any outlet channel. For one thing, neither the physical interests of the nation as a whole nor those of individuals cannot be sacrificed to any great extent. For another thing, reform of those parts of the national income distribution system which violate the law of value and the principle of "to each according to his labor" still needs to be deepened. Unfair income distribution and waste of social wealth is quite severe. In the such areas as grain, housing, medical care, and education, reform of the distribution method, which is characterized by the supply system, still needs to be deepened. Trapped in these straitened circumstances, the burden of price subsidies shouldered by the state's fiscal resources grows heavier and heavier, the elasticity of fiscal revenues and expenditures sinks lower and lower, the ability of the state's fiscal policy to



regulate the economy grows weaker and weaker, and the national economy grows more and more sensitive to monetary fluctuations. These things are sure to make it difficult to achieve stable economic development and monetary stability.

## II. A Few Measures To Overcome Current Economic Difficulties

The most pressing task now facing us is to turn the market slump around and spur an appropriate degree of growth in production and consumption.

In the long run, it will be necessary to carry out improvement and rectification in order to alleviate quantitative and structural imbalances, and to restore economic order, but if we are to thoroughly correct the imbalance whereby overall demand exceeds overall supply, avoid large swings in economic development, and gradually achieve stable, coordinated, continuous, and rapid development, then reform is the fundamental tool by which to achieve our goals. For the short term, what we should do is to address the underlying cause of the market slump by taking forceful measures which directly affect the current internal operating mechanisms of the economy. We believe that the following measures can be adopted at this time:

1. We should increase the scope of investments to an appropriate degree, particularly the amount of bank credit used for fixed asset investments, and make the scope of fixed asset investments for 1990-91 remain at a level equal to or above that in 1988 based on comparable prices. At the same time, we should vigorously readjust the investment structure and accelerate key construction projects. Increased credit should be used primarily in the energy, transportation, raw and semi-finished materials, and communications sectors. At the same time, we must accelerate technological upgrading of large- and medium-sized key enterprises, giving them the ability to take over a group of medium- and small-sized enterprises and form enterprise groups. In districts where funds are in especially plentiful supply, we can consider restarting some suspended projects for which funds are assured.

2. We should issue short-term treasury bonds and increase the quantity of construction bonds issued by local governments and enterprises. We should transfer some personal savings and put them, in the form of investments, into production and construction. We could go through banks to make public bond offerings. In other words, the state banks would serve as agents for the Ministry of Finance in selling bonds publicly to urban and rural residents. Trading would be organized by the state banks. By allowing the state to decide how these bonds are issued on the basis of market trading conditions, and implementing open market trading of treasury bonds, we would restore the prestige of treasury bonds, and provide banks with more ways to readjust current assets and stabilize the growth of personal savings. This would increase the liquidity of the state's fiscal

resources, decrease the pressure upon banks created by the imbalance of fiscal revenues and expenditures, stabilize personal savings, and strengthen the market.

3. Other countries have often had success in correcting insufficient consumer demand by providing consumer credit and resolving conflicts inherent in the age distribution of consumption and savings. The main measures that we can take now include providing housing mortgages on an experimental basis at the level of county town or below, and providing credit for durable consumer goods and issuing telephone bonds in large- and medium-sized cities. More than 20 million young people reach marriage age every year. If one-tenth of all newlywed households took out consumer loans to buy durable consumer goods, the industries which exert the largest impact upon the economy would gain one million stable clients, and their capacity to withstand market fluctuations would be greatly strengthened. Successful experience abroad indicates that telephone bonds can basically raise enough investments to spread telephones to every household. This would not only transfer a part of personal savings to construction, but it would also accelerate the development of the communications industry.

4. We should issue debt-clearing bills, strengthen legal supervision, and restore the function of commercial credit as quickly as possible. In order to untangle "triangular debt relationships," we must: 1) have effective financial instruments, and 2) implement strict enforcement of economic contracts. We must impose interest penalties on firms that tie up funds in violation of contract stipulations in order to raise the economic cost of sitting on funds. It is the specialized banks which can play a key role in this regard.

5. We should establish a regulatory organ which coordinates the state plan, fiscal policy, monetary policy, and prices, and we should switch from scattered, sporadic, and large-scale readjustments to coordinated, continuous, and small-scale readjustments. In concrete, the State Planning Commission could take the lead, and the Ministry of Finance, the People's Bank, and other related organs could participate in work to organize a national economic observation and control center. Such an organ would observe changes in the national economy in a timely manner, and it would make monthly readjustments of interest rates, exchange rates, prices, and tax rates. While stabilizing personal savings and the monetary situation, we could gradually turn the market slump around and overcome current economic problems.

## Industrial, Commercial Bank Holds Directors Forum

SK0808003390 Shenyang Liaoning Provincial Service  
in Mandarin 0930 GMT 6 Aug 90

[Text] A forum of directors of the branch offices of the China Industrial and Commercial Bank throughout the



country opened in Xincheng, a coastal city of our province, on 4 August and will conclude on 7 August. Xiao Zuofu, vice governor of Liaoning Province, attended to extend warm welcome to the representatives from the branch offices of the China Industrial and Commercial Bank throughout the country on behalf of the Liaoning Provincial Government.

The forum noted: In the second half of this year, industrial and commercial banks throughout the country should continue to exert great efforts to expand savings deposits, strive to increase fund resources, and ensure that savings deposits of industrial and commercial banks reach 50 billion yuan by the end of this year so as to facilitate economic restructuring, and support the appropriate growth of the national economy. While controlling the total amount of loans continuously, they should improve the investment pattern, and increase investment returns. They should support on a priority basis the large and medium-sized key enterprises and key commodities and materials that have a bearing on the national economy and the people's livelihood. Meanwhile, they should render proper support to the small and medium-sized enterprises whose products are readily marketable and economic results good, Chinese-foreign joint ventures and cooperative enterprises and exclusively foreign-funded enterprises, and collective enterprises. Industrial and commercial banks should continue to help enterprises eliminate debt chains, and urge enterprises to adopt effective measures to reduce and recall overdue loans.

The forum noted: To encourage enterprises to reduce the funds tied up in loans, fines on the overdue loans that are recalled in the second half of this year may be reduced by 50 percent. Loans for technical transformation should also be increased properly so as to ensure funds for enterprises to upgrade and update products, and achieve technological progress.

## INDUSTRY

### Output of Light Industrial Products in July

HK1008154190 Beijing CEI Database in English  
10 Aug 90

[Text] Beijing (CEI)—Following is a list of the output of light industrial products in July 1990, released by the State Statistical Bureau:

Item	Unit	6/90	7/90	7/89
Bicycle	10,000s	267.01	242.36	298.63
Sewing machine	10,000s	66.01	61.73	81.22
Watch	10,000	690.80	695.5	556.7
TV set	10,000s	214.89	190.21	226.60
color TV	10,000s	78.03	76.72	79.01
Video recorder	10,000s	0.01	0.04	
Radio	10,000s	172.90	154.72	163.14

Tape recorder	10,000s	287.10	242.23	161.22
Washing machine	10,000s	57.51	45.14	65.57
Camera	10,000s	13.25	13.22	19.09
Fan	10,000s	657.22	477.99	539.76
Refrigerator	10,000s	45.02	41.33	62.15
Sugar	10,000t	0.79	0.37	0.02
Salt	10,000t	357.9	152.6	181.2
Cigarette	10,000c	257.8	225.0	228.5
Beer	10,000t	85.38	88.23	74.15
Liquor	10,000t	40.65	29.46	25.89
Canned product	10,000t	9.80	11.56	17.67
Feed	10,000t	225.17	180.15	187.51
Machine-made paper and kraft	10,000t	105.14	98.31	99.16
of: Newsprint	10,000t	2.07	2.65	2.28
Anastatic printing paper	10,000t	5.19	4.69	6.80
Synthetic detergent	10,000t	13.95	12.16	11.79
Daily fine aluminium products	t	6788	5307	6358
Farming film	10,000t	1.77	1.41	1.52
Bulb	100m pc	2.01	1.68	1.70

Notes: m.m.—million meter; c.m.—cubic meter; pcs—piece; c—cases; t—ton; s—set

### Industrial Value by Province

HK1008153790 Beijing CEI Database in English  
10 Aug 90

[Text] Beijing (CEI)—Following is a list of the industrial value by areas in China in July 1990, released by the State Statistical Bureau:

Area	(unit: 100 million yuan)		
	7/90	7/89	Over 7/89
Total	1542.01	1063.43	2.9
Beijing	55.14	37.87	5.2
Tianjin	43.78	31.66	0.7
Hebei	60.41	40.44	3.5
Shanxi	33.81	22.08	3.3
Inner Mongolia	18.03	11.76	-2.9
Liaoning	110.54	74.68	1.5
Jilin	40.10	26.38	3.0
Heilongjiang	59.41	38.87	-1.7
Shanghai	122.60	87.93	-1.7
Jiangsu	163.54	124.41	4.7
Zhejiang	86.52	64.56	2.2
Anhui	41.51	27.74	4.4
Fujian	32.78	22.24	11.9

Area	(unit: 100 million yuan)		
	7/90	7/89	Over 7/89
Jiangxi	27.83	19.17	0.4
Shandong	119.01	80.16	4.9
Henan	58.21	38.00	2.0
Hubei	67.78	52.44	-2.3
Hunan	49.27	31.77	5.5
Guangdong	130.57	86.22	15.0
Guangxi	24.44	16.33	-1.3
Hainan	2.95	1.89	-1.1
Sichuan	81.31	53.50	1.4
Guizhou	15.47	10.06	1.1
Yunnan	25.47	13.61	7.1
Tibet			0.17
Shaanxi	27.08	20.91	-4.2
Gansu	18.99	13.77	-5.4
Qinghai	4.58	2.67	1.5
Ningxia	4.98	3.21	1.9
Xinjiang	15.63	8.93	5.3

Note: Industrial output value in 1990 is measured in current price.  
Industrial output value in 1989 is measured in 1980's constant yuan.

### Sichuan Industrial Production Increases in July

HK1108034190 Chengdu Sichuan Provincial Service in  
Mandarin 0915 GMT 10 Aug 90

[Text] After witnessing a rapid recovery in June, Sichuan's industrial production increased significantly in July of this year.

Total industrial output value topped 5.424 billion yuan, representing a 1.39-percent increase over the corresponding period of last year, and a 1.2-percent increase over the previous month.

Light industrial output value witnessed a 1.9-percent increase, while heavy industrial output value, a 1-percent increase, over the corresponding period of last year.

Chongqing City, whose industrial output value accounts for one-fourth of Sichuan's total, also witnessed a 5.58-percent increase in July of this year compared with the corresponding period of last year.

Luzhou, Heyang, Shange, Liangshan, and some other areas of Sichuan also witnessed an increase of over 14 percent in their respective industrial output values.

Energy, raw material, and agriculture-oriented industrial production continued to maintain vigorous development. Electric energy and natural gas production registered a 8.57-percent and a 5.47-percent increase respectively compared with the corresponding period of last year; iron ore, pig iron, steel, soda ash, and other raw

material production also witnessed rapid growth; farm-oriented plastic film and chemical fertilizer production registered a 21.64-percent increase and a 10.8-percent increase compared with last year.

Moreover, motorcycle, refrigerator, and television production and production of other types of middle-grade and high-grade durable consumer goods, witnessed a rapid recovery in July of this year.

## SMALL-SCALE ENTERPRISES

### Report on Rural Enterprise Development, Coordination

90CE0340A Beijing ZHONGGUO NONGCUN JINGJI  
[CHINA'S RURAL ECONOMY] in Chinese No 5, 20  
May 90; No 6, 20 Jun 90]

[Article by "Township and Town Enterprises Task Force," of the Rural Economy Unit, State Council Research Office, and of the Rural Development Research Institute, Chinese Academy of Social Sciences: "Development of China's Township and Town Enterprises and Their Macrocoordination With the National Economy"]

[No 5, 20 May 90 pp 3-14]

[Excerpts] 0.1 The most striking change in rural economic life during 10 years of reform has been the coming to the fore and the burgeoning development of township and town enterprises. In 1988, township and town enterprises created an output value of 649.566 billion yuan. This was 24 percent of the country's social gross output value for the year. Township and town industries created a gross output value of 452.938 billion yuan, which was 27.6 percent of national industrial gross output value for the year. The rise and development of township and town enterprises on the good earth of China is rooted deeply in history and national circumstances. People term them "grassroots industries" that not even a prairie fire can destroy, and that grow again when the spring breeze blows.

0.2 However, township and town enterprises developed most rapidly during the period 1985 through 1988. (During this four year period, the gross output value of township and town enterprises averaged an annual 39.6 percent increase). It was during this period that the country experienced the highest and most sustained currency inflation since founding of the people's republic. The combination of such sustained high inflation rates and the ultra-rapid development of township and town enterprises caused increasingly loud cries of blame against township and town enterprises in recent

years, so much so that when the Central Committee decided in 1988 to rectify the economic environment and restructure the economic order, it made an important part of its program resolute cutbacks in the speed of development of township and town enterprises, and the closing, halting, merging, and retooling of some township and town enterprises.

0.3 Following resolute implementation of a tight money policy and vigorous curtailment of the scale of capital construction in 1989, the currency inflation rate gradually went back down, and the momentum toward increased overheating of the economy was brought under control. In February 1989, the currency inflation rate increased to 27.9 percent, but by December, it had fallen to 6.4 percent. At the same time, speed of industrial growth declined from 21 percent in 1988 to 8 percent for a 13 percentage point decline. However, problems including a market slump, a slide in industrial production, a decline in enterprises' economic returns and unemployment, a rise in the job seeking rate, and an outflow from enterprises of a million peasant workers occurred. The halting of production in many factories, the large numbers of workers awaiting employment, and the large outflow from enterprises of peasant workers has become a prominent problem directly affecting social order. A situation occurred in which a marked [passage omitted] unemployment replaced the high inflation rate in China's economic life.

0.4 [passage omitted]

### **1. The Chinese Rural Township and Town Enterprises That Grew in the Niche**

#### *A General Law of Industrial Evolution*

[passage omitted]

1.9 Following liberation, the broad masses of China's peasants took the collective road. The system whereby individual families and households owned the land changed to a socialist public ownership system in which community collective organizations were the principal entities. Nevertheless, collective ownership of the land did not change the following characteristics of China's small scale agricultural economy: a) Large labor inputs into small plots of land; b) the purpose of labor was not to increase the commodity rate of agricultural products for profit, but rather was the satisfaction of personal consumption needs. The most important reason that these features of the small scale agricultural economy remain very marked, and that traditional agricultural self-sufficiency production has not changed into modern commodity-style production is that following liberation, we intensely pushed industrialization from a weak traditional agricultural foundation. We had no choice but to employ a price scissors to accumulate funds from agriculture and to get the grain supplies that industry needed. In order to do this, we resorted to monopoly procurement and monopoly sales, as well as collectivization to insure the exchange of industrial and agricultural

products at unequal value. Although monopoly procurement, monopoly sales, and collectivization exhibited a tremendous historical service in assuring sources of funds needed for industrialization, they also cut ties between agricultural and industrial markets and obstructed the flow of population between cities and the countryside. [passage omitted]

1.10 In short, the rise and development of industrialization was founded on the market relationship of the two large industrial sectors of industry and agriculture. They stimulated increase in the agricultural productivity rate causing a change in the employment structure and a process of change in the way people lived. However, China's industrialization never spurred attendant increase in the agricultural labor productivity rate; normal market relations between the two great industrial and agricultural sectors were never established; progress in urbanization was obstructed; and large amounts of surplus agricultural labor lingered on the land maintaining the old pattern of cyclical increase in population and output.

The large surge in China's surplus agricultural workforce does not result from increase in the agricultural labor productivity rate but from the joint role of population pressure on resources, and the characteristics of the small scale agricultural economic system. Thus, the first prerequisite for an increase in the agricultural productivity rate is a transfer of the surplus agricultural workforce to nonagricultural occupations.

#### *The Dual Industrialization Route in Which Capital Displaces Labor*

1.11 Increase in the agricultural productivity rate requires the transfer to the nonagricultural sector of large numbers of the surplus workforce. However, development of China's industrial sector has not been able to provide more employment opportunities for surplus agricultural labor; on the contrary, it has taken a dual industrialization route in which capital displaces labor.

1.12 Ever since the day it began, China's industrialization has been characterized by capital displacing labor. China's earliest industry appeared in the munitions sector rather than in the light industrial sector such as in the textile industry, which is more closely associated with agriculture. Later on, foreign capitalists came rushing in like a tide. They used the dominance they enjoyed in money, equipment, and technology to crush the development of Chinese national capital. The traditional agriculture, and the family handicraft industry forms of production for self sufficiency in the farflung rural villages stubbornly resisted capitalist industry's occupation of rural markets. Consequently, development of China's medium and small capital was extremely slow, but big capital developed extremely quickly. For example, in 1912, enterprises having a capital of less than 10,000 yuan numbered 532, and by 1918 the number declined to 127 in a 76 percent drop. Meanwhile the number of enterprises having a capital of

between 200,000 and 500,000 yuan increased from 49 to 78, and the number of enterprises having a capital of between 500,000 and 1 million yuan increased from 12 to 27. Enterprises having a capital of more than 1 million increased in number from 25 to 33 in a respective 0.59, 1.25, and 0.09 fold increase.<sup>1</sup> This steady increase in large capital inevitably occasioned the displacement of labor by capital. In 1920, the country's industrial capital amounted to 2.37 billion yuan. Just before national liberation in 1949, the amount of accumulated industrial capital totaled more than 12 billion yuan for a 5.1 fold increase over 1920, while during the same period the number of industrial workers increased only somewhat more than 4-fold, meaning that the amount of capital in industry increased 37 percent per capita.<sup>2</sup>

After 1949, China entered the second stage in the historical process of industrialization and modernization. The second stage of industrialization was characterized by large scale industrialization in which the state was the main participant, the goal was maximum increase in output, heavy industry was the nucleus, central government finance was the hub, and a highly centralized plan commodity system was the main support. During the 30-year period from 1949 to 1978, the country made great accomplishments in industrialization. We largely built an independent industrial system, accumulating assets worth several hundred billion yuan in enterprises under ownership of the whole people to lay a foundation for the industrialization of China. Comparison of 1978 with 1952 shows a 28.8-fold increase in heavy industry, an annual 13.8 percent growth rate; and a 7.26 percent increase in gross social output value for an average annual 7.9 percent growth rate. National income increased 4.53-fold in an average annual 6 percent growth rate. Nevertheless, the state industrialization strategy that took heavy industry as its nucleus did not effectively link to the full the billions in capital accumulated by the whole people, particularly through the stinting on food and clothing and the arduous struggle of the broad masses, with China's most abundant labor resources to give impetus to change in the employment structure, and changes in the people's living conditions. Comparison of 1978 with 1952 shows a 3-fold increase in the number of workers employed in the country's industrial sector for an annual average 5.5 percent growth rate; a 22.3 fold increase in the original value of fixed assets for an average 12.9 percent annual speed of increase, a 4.8-fold per capita growth of fixed assets, and a 6.2 percent average annual speed of growth. The original value of fixed assets per capita in enterprises under ownership of the whole people increased 5.7-fold in an annual average seven percent speed of increase.

1.14 The rapid growth of per capita capital in industry stemmed from development biased in favor of heavy industry. Regression analysis of light and heavy industry gross output value and investment in fixed assets for the period 1952 through 1978 shows investment in fixed assets had to increase 0.75 percent for every one percent increase in light industrial output value, whereas each

one percent increase in the output value of heavy industry required a 0.81 percent increased investment in fixed assets. (Relevant coefficients  $R_2$  are 0.833 and 0.872). During the 30 year period from 1952 through 1978, investment in heavy industry averaged 46.7 per total state investment in capital construction, while investment in light industry accounted for only 5.5 percent, and investment in agriculture 10.8 percent. Such a sharp tilt toward investment in heavy industry was even greater than in USSR industry.

The inevitable result of the tilt in favor of the development of heavy industry enabled us to push ahead rapidly along the dual industrialization road in which capital displaced labor. In 1952, an investment in fixed assets of 1,197.40 yuan was required for each industrial worker employed, but by 1978 6,942.70 yuan was needed. Because of capital's displacement of labor, the gateway to industrial employment was virtually closed to rural labor. Increasingly, surplus rural labor, whose marginal output could not compensate for its marginal input, huddled on the limited amount of land maintaining the pattern of the greater the poverty the more land reclaimed, and the more land reclaimed, the greater the poverty.

*Growth of Township and Town Enterprises Nixed Between Traditional Agriculture and Modern Industry*

1.15 China's rural township and town enterprises sprang from the niche between the two great slabs in the dual structure of traditional agriculture and modern urban large scale industry. The inexorability of their growth and rapid development stemmed both from the crowding of surplus labor on the land in traditional agriculture, and the pressure of poverty from low agricultural income. It also stemmed from the exclusion by large scale urban industrial capital of surplus agricultural labor, and the bifurcation between cities and the countryside in the household registration welfare system.

1.16 Institution of the agricultural family output-linked contracting system in 1979 marked the beginning of the third stage in the country's historical process of industrialization and modernization. It was during this new historical stage that dual changes appeared in both the economic system and development strategy, and it was also the stage in which the economic system underwent a violent transformation, the various elements of production being re-deployed and re-grouped.

Following institution of the output-related contracting system, the two two-edged swords of monopoly procurement and monopoly sale, and collectivization that supported the country's industrialization began to lose their efficacy. This system enabled the peasants to obtain compensation directly commensurate with their expenditure of labor from their regained right to farm the land as they pleased, thereby emancipating their long-suppressed enthusiasm. At the same time, it also enabled the peasants to obtain free control over their own persons from this right to farm the land as they pleased,

thereby creating conditions for peasants to leave the land to go into other occupations. Naturally, the comparison and choice of benefits caused peasants, who had been content for several thousand years with facing the yellow earth and their backs to the sky, to fix their gaze on nonagricultural occupations having greater returns. The attraction of high earnings, and the appeal of modern life lent an unstoppable momentum to the shift of surplus agricultural labor into nonagricultural occupations.

1.17 However, at the same time that the peasants' tremendous enthusiasm for a new way of life was aroused, the high threshold leading to city employment and the separate economic systems of cities and the countryside continued to restrict peasants from gaining new employment opportunities. This pattern, which had been formed over a long period of time, could not be changed within a short period of time; it constituted a barrier that was difficult to surmount. Under these circumstances, the operation of enterprises within rural villages, the peasants leaving the land without leaving the countryside became the peasants' only choice to get into nonagricultural occupations.

1.18 The rural township and town enterprises that sprang up in the niche between traditional agriculture and modern large scale urban industry exhibited two features from the day of their birth. The first was solution to the employment problems was given first place; the second was the fairly low entry requirements.

Large numbers of questionnaire surveys show that the operators of township and town enterprises frequently placed solution to the employment problem in their township or village in first place. This was also the fundamental reason why the country's township and town enterprises have now taken on 95 million people, 3.4 times again the rural nonagricultural employment in 1978, and a number equal to the sum of all people absorbed into units under ownership of the whole people during the last 40 years. The questionnaire survey data also show that the relatively low entrance requirements of township and town enterprises are also an important factor in their sudden rise and rapid development in recent years. These two features of township and town enterprises stand in vivid contrast to the development of large state-owned industries. They themselves show the emergence of township and town enterprises as a new point of growth for China's industrialization.

## **2. Conflicts Between the New Point of Growth in Industrialization and the Old Pattern of Economic Development**

### **The New Point of Growth in Industrialization**

2.1 There are numerous as yet not clearly understood problems in the nature of objective laws about just how to go about the industrialization of a large country such as China that has a huge population, relatively scant resources, and is economically backward. The experiences and lessons of the past 40 years of industrialization

tell us that the national industrialization strategy pursued of rapid accumulation of capital to lay a foundation for industrialization, and to establish China as a great political and military power was successful; however, it failed to spur the transformation of traditional agriculture or to change the employment structure. When entering today's new stage of dual change in the economic system track and the development strategy tract, and a sharp change in the economic structure, correcting the mistakes made in the old industrialization strategy is imperative. [passage omitted]

2.3 Japan's successful experience in industrialization, and the lessons in industrialization of our own country and India show that in a large country having a huge population and a shortage of resources such as ours, for a long time following the beginning of industrialization, it is necessary to make finding jobs for labor into which the surplus agricultural workforce can transfer a primary strategic goal in industrialization. It is necessary to fully tie together the production element in shortest supply at the outset of industrialization—capital—with the most abundant production element—the workforce. In adopting new techniques, the industrial sector has to unequivocally blaze new trails in using more labor and less capital.

2.4 It is in the above sense that we say that the rise and development of China's township and town enterprises is a new point of growth in China's industrialization. This is because, from the very beginning, it sought to solve the employment problem and transfer the surplus agricultural workforce as its main goal. From the very beginning, it concentrated on labor-intensive medium and small enterprises having low entrance requirements. The development of township and town enterprises in the niche between traditional agriculture and modern urban industry serves as a bond, and builds a bridge for realization of a change in the dual economic structure.

### *Conflict Between Development of Township and Town Enterprises and the Weakness of Traditional Agriculture*

2.5 However, if we regard the inexorability and significance of the sudden rise of township and town enterprises solely as new points of growth in China's industry, and disregard the inherent contradiction between their development and the existing old pattern of economic development; and if we overlook the dangers that this intensification of inherent contradictions occasions for the Chinese economy and social life, we will likewise be unable to formulate a correct industrialization strategy and policies, or even make mistakes of historical proportions.

2.6 The contradiction between township and town enterprises and the old pattern of economic development is manifested first of all in its contradiction with the weak traditional agriculture. The limitations that this weak traditional agriculture exert on advanced industrialization has been expressed numerous times in the industrialization process following liberation.



2.7 China's circumstances are expressed most prominently in a huge population, large grain consumption, and relative scarcity of agricultural resources. The problem of providing food for a population of 1.1 billion remains China's chief economic problem. In addition, light industrial enterprises dependent on agricultural products for raw materials account for approximately one-half of all light industrial enterprises in the country, and they account for 58 percent of township and town light industrial enterprises. Therefore, ups and downs in agriculture reverberate throughout the entire national economy. A bumper harvest in agriculture plays a crucial role in stimulating economic expansion and in attaining a high peak. Conversely, a large decrease in agricultural outputs also impairs economic development, or may even push economic growth into a trough.

2.8 Good or bad agricultural production is usually transmitted throughout the national economy via two channels. One channel is through changes in state plan; the other channel is changes in market prices of agricultural products.

Relay through the national plan channel shows up in decreased pressures on the government to solve the people's food problem, and increased zeal for speed in economic development each time there is a bumper harvest in agriculture and grain is in plentiful supply. At this time, the annual growth rate for investment in fixed assets, and the accumulation rate rise. Increases in investment in fixed assets and in the accumulation rate are the most sensitive elements affecting economic expansion. A regression analysis we did of the relationship between investment in fixed assets and economic growth for the period 1952 through 1988 shows a marked direct correlation ( $R_2 = 0.935$ ), and an elasticity value of 0.84 percent, meaning 0.84 percent economic growth per 1 percent increase in investment, and a 0.84 percent negative economic growth for every 1 percent decline in investment. Regression analysis of the relationship between the accumulation rate and economic growth likewise showed a marked direct correlation ( $R_2 = 0.938$ , and an elasticity value of 0.88 percent, meaning for each percent of increase or decrease in accumulation rate, economic growth increased or decreased 0.88 percent.

When national plans are changed, after a large amount of investment is tilted toward investment in the industrial sector, investment in agriculture correspondingly declines. In addition, sharp expansion of industry and the construction industry may intensify shortages of energy, raw and processed materials, and transportation, thereby shaking the basic foundations of agriculture in terms of funds and materials. When a lean harvest in agriculture occurs, and the government is faced with pressures to solve the food problem, it has to readjust plan, curtail investment in fixed assets, and lower the speed of industrial growth, which drag the entire economy into a period of contraction.

Yet another channel through which ups and downs in agriculture affect economic ups and downs is fluctuations in the prices of agricultural products. Following each bumper grain harvest, the state usually lowers procurement prices and increases the amount of procurement for marked improvement in urban residents' consumption and supplies of raw materials for light industry, thereby spurring an expansion of the national economy. However, a lowering of state procurement list prices and a rise in the amount of procurement may force the peasants to change their production decisions, decreasing investment in agricultural production, particularly in grain production. The result is a decline in agricultural output. After a one- to two-year slack period following decline in agricultural output, the state is forced to reduce the volume of its requisition procurement and raise procurement list prices. This enables the peasants to increase their investment in agriculture, sparking revival and renewed increased in agricultural production.

Of even greater direct effect on peasant production decisions is changes in country fair trade prices. Good or bad agricultural production will be markedly reflected during the same year in country fair trade prices, thereby influencing peasant choices between agricultural and nonagricultural investment. When agricultural product prices fall, the peasants are more likely to invest their money, land, and labor in nonagricultural pursuits, and vice versa.

2.9 Changes in agricultural product prices cause changes in peasants' production decisions, which ramify into rises and falls in agricultural production. This is markedly reflected in movement in reverse of the rate of increase in output value in the farming industry versus village-operated industries nationwide.

The speed of increase in output value of village-operated industries in which it could be calculated over a period of 17 years showed alternate rise and fall between the farming industry and village-operated industries, changes in their speed of growth being opposite each other in a perfectly symmetrical pattern. This showed that the peasants made choices between the two in how they allocated their resources that caused opposite speeds of growth between them. When more resources were allotted to industry, speed of growth in the farming industry decline, and when more resources were allocated to the farming industry, the speed of growth of industry also declined. This had the same effect as the alternating slow and fast growth rates of agriculture and industry resulting from state plan investment decisions about the division of investment between the industrial and agricultural sectors.

In addition, the high speed development of township and town enterprises, and the rapid shift of large amounts of surplus agricultural labor affected agricultural production through the following two channels as well.

First, the form of surplus agricultural labor in China is not as western dual economic theory says—a marginal output value of zero that has no effect whatsoever on the gross output value of agriculture. Although the marginal output of surplus agricultural labor in China is actually not zero, neither does it compensate for the marginal input, which is to say that it is unable to meet the consumption needs of the marginal labor input itself. The evolutionary history of the country's agricultural productivity shows that steady rise in the soil productivity rate in traditional agriculture was achieved through intensive inputs of large amounts of labor to do meticulous and intensive farming. After this surplus labor transferred to non-agricultural jobs, although the value it created was far greater than the value it created when languishing in the agricultural sector, without corresponding increase in inputs of other production elements in agriculture, agricultural production would be hurt.

Second, we said that marginal output could not compensate for the marginal input of the surplus labor. A theoretical analysis shows that when a family unit performs production on a small scale, labor inputs and returns received are figured in terms of the family unit. Under these circumstances, it is very difficult to differentiate whose labor input produced high output, and whose labor input produced low output or produced nothing. However, when the agricultural workforce transfers into nonagricultural occupations, the first to go are those whose work quality is better, and who are better educated. The loss of this "manpower capital" in agriculture has an effect on agricultural production that cannot be disregarded.

2.10 In short, China's weak traditional agricultural sector was characterized by the following: It amassed large quantities of surplus labor whose marginal output could not compensate for its marginal input. At the same time, when the surplus labor transferred rapidly to the nonagricultural sector, and when industrialization moved ahead at high speed, this surplus labor was usually not accepted. The contradiction between the weakness of traditional agriculture and the swift advance of industrialization is a basic contradiction in the process of China's economic development. The ultra-highspeed development of township and town enterprises in recent years has caused this contradiction to be revealed to the full. Coordination of the relationship between township and town enterprise development and agriculture has become a grim problem facing us.

#### *The Conflict Between Township and Town Enterprise and Large Urban Industry Development*

2.11 The conflict between township and town enterprises and the old pattern of economic development is expressed not only in their conflict with the development of traditional agriculture, but also in their conflict with large urban industries.

2.12 It must be affirmed that from an overall standpoint, the development of township and town enterprises makes up for the deficiencies of large urban industries in the industrial structure and the product mix. These enterprises ease employment pressure, and give impetus to aggregate growth of and structural changes in the national economy. They also increase the overall efficiency of the national economy. Thus, they gain sustained, stable, and coordinated development of the national economy to lay a foundation for realizing the shift to a dual economic structure.

2.13 Nevertheless differences between township and town enterprises and large urban industries exist in their operating mechanisms, motivating mechanism, and information mechanism. These differences mandate inherent conflicts between the two. In the final analysis, these conflicts are reflected in inherent contradictions between plan mechanisms and market mechanisms.

First of all, major differences exist in their operating mechanisms. As main components of the national economy, large urban industries operate in general accordance with the plan economy model. Within this system, all decisions from production to sales are concentrated in the hands of governments at various levels, the enterprises themselves having no independent decisionmaking authority or autonomous operating authority. After several years of reform, the operating mechanism of state-owned enterprises has changed somewhat; however, no substantive changes have occurred in its basic characteristics.

From the day they were born, township and town enterprises have produced according to market demand. From the allocation of resources to the sale of products, market forces decide everything. As independent commodity producers, township and town enterprises operate under control of the "invisible hand," responding to market demand, making independent decisions, and operating autonomously.

Second, the motivation for development of township and town enterprises was of many different kinds. First was the market motivation. The extent to which they satisfied market demand was of crucial importance in deciding whether township and town enterprises survived and developed. In order to survive and develop, they had to meet market demand and changes in market demand, constantly readjusting their production and operating activities. Markets are the motive force driving the development of township and town enterprises. Second is community dynamics. The community is an entity that combines party, government, and economic authority, and that has its own independent economic interests. Institution of the financial contracting system further strengthened consciousness of the independent interests of community government. Under the special political and economic structure existing in China today, township and town enterprises are the best conveyers and carriers of independent community interests. Community government is not just the

most important initiating force and external driving force for the development of township and town enterprises, but also is also frequently the ultimate protector of township and town enterprises from operating risks. When central government policies do not favor development of township and town enterprises, or when problems arise in their operation, township and town enterprises can always obtain maximum protection and support from the community government. The third is employment motivation. Since previous articles have analyzed this matter substantially, there is no need to go into it further here. It should be noted that since the surplus rural workforce steadily increases as time goes by, the development of township and town enterprises will be driven by employment for a long time.

The motivating force in the above three regards fashioned a complete motivation system for township and town enterprises within the economic structure existing in China today. This system consistently maintained sufficient impetus for the development of township and town enterprises. It had both internal dynamism and outside pressure.

The motivating mechanism for large urban industry is singular, i.e., it is driven by government's administrative force. Following institution of the contract system, enterprises had some autonomy in operation. Furthermore, results of enterprises' operations were linked to enterprises' returns. This was a motivation for action from within the enterprises. However, since no real changes were made to soften the fundamental character of budget restraints on enterprises, this was an insufficient developmental force within enterprises.

When the motivating forces in township and town enterprises and in state-owned enterprises are compared, it is not difficult to see why the speed of growth of township and town enterprises far surpasses that of state-owned enterprises, and why they do not grow in proportion to state-owned enterprises in accordance with central government intentions.

Finally, as regards the information mechanism, township and town enterprises are regulated by the market mechanism, and it is price signals and the related lateral transmission of market demand information. Township and town enterprises' information mechanisms enable the fairly rapid relay of information enabling township and town enterprises to readjust their production and operations within a fairly short period of time, creating conditions for fulfillment of their "pursuit of profits." However, since a level-by-level mechanism for sharing information is missing, whenever profit is to be made from a certain kind of production, township and town enterprises frequently rush headlong into mass action causing "excessive competition," which causes an irrational allocation of resources.

Large urban industries are regulated by the planning system, and the thing that regulates production operations is primarily the quantity signals that flow vertically

level by level from national agencies. The advantage of this signaling mechanism lies in that if the state planning mechanism makes correct analyses and judgments about the market demand situation, the quantity signals relayed to enterprises will usually be fairly accurate. Furthermore, the planning system has a built-in level-by-level information sharing mechanism that makes a headlong rush into mass action very unlikely. However, the shortcoming of the planning system is that it usually reacts quite slowly to fairly fast-moving changes in the market situation. In addition, the incompleteness of planning techniques and methods result in delays in the information collection and relay time. As a result plan cannot keep pace with changes, so enterprises' production is frequently unable to satisfy market demand.

2.14 The problems do not lie only in the inherent conflicts between township and town enterprises and large urban industry created by differences in the above three regards that have caused the lack of overall coordination in the national economy of recent years. The complexity of the problem also lies in the distortion of price signals about products and production essentials today, and sluggish development of the market system, as well as tumult in the township and town enterprise property rights system. These matters are causing the development of some township and town enterprises to depart from the regular operating path of commodity producers, and the occurrence of certain distortions, which magnify overall fluctuations in the national economy.

2.15 The distorted development of some township and town enterprises in recent years has been manifested in the following ways: First is the skewing of the price of capital, namely interest rates. This has meant that township and town enterprises operate with a high debt ratio. This has two results: First is a decline in the percentage of working capital, and second is a tendency for capital to displace labor. For a long time, the price of capital in China, i.e., interest rates have been overly low. This is not only an important reason for steady inflation of the scale of state-owned enterprises' investment in fixed assets, but also an important reason for the high debt ratio of township and town enterprises. A representative sampling shows that during 1986 township and town enterprises had a between 52 and 57 percent assets to liabilities ratio. In Wuxi and Zhenjiang cities in Jiangsu Province where township and town enterprises are most developed, working capital owned by township and town enterprises themselves fell from 24.9 and 26.6 percent respectively from 1987 to 21.4 and 23 percent in 1988. In addition, low interest rate bank loans supported the sharp inflation of township and town enterprises' investment in fixed assets. Data supplied by the Township and Town Enterprise Bureau of the Ministry of Agriculture show that bank loans financed 48.37 percent of the 24.322 billion yuan of investment in fixed assets by township and village enterprises in 1987. However, after deducting the percentage financed out of funds that the public themselves subscribed, the percentage was only

21.78 percent. During 1978 and 1988, the original value of township and town enterprises' fixed assets increased by an annual 24.76 percent, and the per capita original value of fixed assets increased by an annual 10.47 percent. Capital's displacement of labor showed up very clearly in the development of township and town enterprises.

Second is the skewing of land prices, namely land rent, which causes township and town enterprises to spread out, "develop everywhere" and take over large amounts of cultivated land, which makes difficult the realization of concentrated benefits from economic development. Between 1978 and 1988, the number of township and town enterprises in the country increased from 1,524,000 to 18,881,600, and the number of staff members and workers per enterprise declined from 18.5 to 5.1, including a decline from 21.8 to 7.4 in rural industrial enterprises, a decline from 50.5 to 15.5 in construction industry enterprises, and a decline from 15.9 to 1.8 in communications and transportation enterprises. During the same period, the country's cultivated land resources declined from 1.49 billion mu to 1.43 billion mu, a 60 million mu decline in an annual decline of between 5.5 and 6 million mu.

Third is the skewing of the price of the labor element, namely wages, which has very rapidly raised the labor costs of township and town enterprises. The large amount of surplus agricultural labor available has not become an element helping hold down the rise in wages. As a developing country having an unbounded supply of surplus labor, one of the most important things for China to do in order to hold down the overly fast rise in wage levels is institute a shift to a dual economic structure. However, the community nature of the country's township and town enterprises makes maximization of the welfare of the members of the community the main goal in developing enterprises; thus, the wage level of staff members and workers in township and town enterprises is not affected by changes in labor market supply. Simultaneous with large numbers of surplus labor having nowhere to go in widespread backward areas, both the wage and welfare levels of staff members and workers in enterprises in a small number of coastal areas have risen sharply in the steady organic improvement of enterprises. In 1978, staff members and workers in township and town enterprise averaged annual earnings of 306.60 yuan per capita. By 1988, the figure rose to 1,009.40 in an annual 12.7 percent increase. After deducting for price rises during the same period, the annual rate of increase was 8.5 percent. Not only was this higher than the 6.8 percent actual average increases in wages of all staff members and workers for the same period, it was also higher than the average annual 7.02 percent in real wages of staff members and workers in units under ownership of the whole people.

Fourth is the skewing of the prices of products and labor, which has led to a convergence of township and town enterprises with large urban industries, and excessive competition. Since 1978, township and town industrial

enterprises have played the major role in the development of township and town enterprises in general. In 1988, township and town enterprises accounted for 69.7 percent of the gross output value of all township and town enterprises, construction enterprises for 12.7 percent, transportation and communication enterprises for 7.3 percent, and commercial service enterprises for 8.5 percent. During the same year, industry accounted for 61.1 percent of the country's gross social output value, the construction industry for 9.9 percent, transportation and communication for 2.8 percent, and commercial service industries for 6.6 percent. The percentages for both were about the same. Among township and town enterprises, it was reprocessing industries that developed fastest. The output value of reprocessing industries stood at 17.16 billion yuan in 1980, or 33.7 percent of the gross output value of all township and town industries. By 1988, the output value of reprocessing industries increased to 114.648 billion yuan, or 33.3 percent of gross output value. Processing industries accounted for 65.8 percent among the three heavy industries that include the mining industry, raw materials industry, and processing industries, rising to 71.2 percent in 1988. By comparison, among industries nationwide in 1988, reprocessing industries accounted for 26.2 percent of gross output value. Among the three heavy industries that include the mining industry, the raw materials industry, and processing industries, processing industries accounted for 48.5 percent. Among township and town enterprises, heavy industry's percentage of gross output value, and reprocessing industry as a percentage of heavy industry output value are both higher than like norms for industry nationwide. Township and town enterprises are in process of taking the road of reprocessing industry's tilted development.

2.10 Obviously, in a situation in which there is no fundamental change in the country's skewed prices, in which markets have just begun to develop, and the national economy operates on two tracks, the old pattern of distortions in the overly fast development of township and town enterprises, and the magnification of macroeconomic uncoordination will cause an even greater scarcity of capital, energy, and raw materials already in short supply. The "quest for rents" throughout society has become a primary force driving economic development, and under these circumstances inflation will also be unavoidable.

[No 6, 20 Jun 90 pp 3-13]

[Excerpts] 3. Strategic Goals of China's Industrialization During the New Stage: Development of Medium and Small Enterprises, and Placing Labor in Jobs; Development of Markets for Key Elements To Improve Economic Returns

*Change in Strategy Goals of Industrialization* [passage omitted]

3.2 Objectively speaking, after 40 years of national industrialization, the strategic industrialization goal of



attaining maximum output increase has been largely realized. Calculations of major criteria reflecting the speed of increase in the country's output based on constant 1952 prices show that the social gross output value and the national income growth rate for 1988 were respectively 21 and 17 times greater in 1988 than in 1952 for an average annual 8.8 and 6.9 percent increase, making China one of the countries in the world having the highest speed of increase. As of the end of 1988, the original value of fixed assets within budget in the country's state-owned entrepreneurial units stood at 1.615 trillion yuan. When added to the means of production of collective enterprise, peasant households, and residents, the amount is appreciable. The position in the world of China as a political, economic, and military power has been basically established. China's stability and development have become an important force for assuring world stability and development.

3.3 China is currently in the third stage of the historical process of industrialization and modernization. This stage is both the stage of advance from being a low income country (an annual per capita GNP of \$300) to a medium income country (an annual GNP of between \$1700 and \$1800), and it is also a stage in which marked changes have taken place in the economic structure, in which society has undergone complete and profound reform and in which a new pattern of opening to the outside world has taken shape. During this stage, summarization of the past to face the future and to establish new strategic goals for industrialization holds extremely important significance.

3.4 The outlook for China from the present time to the end of the century, and for the first several decades of the next century is that we will face numerous limiting factors: Total population will greatly surpass the 12th NPC goal of maintaining it within 1.2 billion by the year 2000. Estimates call for population to reach between 1.31 and 1.32 billion in a more than 15 million annual increase. At the present momentum of development, forecasts call for it to exceed 1.5 billion by the 2020's and the 2030's. China's workforce will also reach its highest peak early in the next century at approximately 750 million. Potentially, the unemployed rural population will reach approximately 200 million.<sup>3</sup> Under the pressure of population, the ecological environment will become more brittle; cultivated land resources will decrease with each passing year; a grain demand that far exceeds supply will become unavoidable; and factors influencing cyclical price rises will be difficult to overcome. Beginning in 1990, China will enter the peak period of debt repayment when the amount of national income used will be smaller than the amount produced. From the beginning to the middle of the next century, China will also become a society having a disproportionate number of old people. Even today, state-owned entrepreneurial units already feel that it is difficult to continue retired staff member and worker retirement pensions and medical and welfare support. At that time, the problem will be even worse. The accumulation and

overlapping of the foregoing conflicts during the next several decades will confront all countries of the world with common problems during their economic take-off stage: a steady rise in price levels, a steady widening of income differences, increased shortage of foreign exchange, latent unemployment coming out in the open, and the expression of conflicts among various interest groups, etc. These will be manifested in China even more prominently. In summary, the next several decades will be a key period in China's economic take-off and national prosperity, and they will also be a daunting era during which old and new conflicts will overlap, the old system shifts to the new system, and crises and opportunities will exist at the same time.

3.5 Constrained by the foregoing contradictions, if we are to reduce shocks during the reform period and ease conflicts of all kinds in society, we will have to change our industrialization strategy goals away from pursuit of maximum output and in the direction of emphasizing development of labor-intensive medium and small size enterprises for the purpose of finding employment for the workforce. We will have to develop key element markets, and form a unified nationwide market system to promote the flow of key elements so that key elements in short supply can be enjoyed by society as a whole, and to enable enterprises to improve their economic returns.

3.6 The needs for such a change in the strategic goals of industrialization are as follows:

(1) The road that China has followed for the past more than 100 years has been one of dual industrialization in which capital has displaced labor, large amounts of surplus labor building up to cause an extremely prominent employment problem. As inertial movement increases China's population from its already huge base figure, employment problems in cities and the countryside may very possibly precipitate an explosive situation.

(2) After 40 years of industrialization, China's industrial base is already established, and the main framework has taken shape. In future investment in industry covered by the national budget, except for the construction of basic facilities affecting the national economic lifeline such as energy, and transportation, fewer or virtually no new heavy processing industries should be built. Development of medium- and small-sized enterprises should rely primarily on financing by the people themselves and on extrabudgetary funds. Medium- and small-sized enterprises should play the role of large gears and screws in the large machine that industry is, complementing large industries.

(3) Unless surplus agricultural labor is transferred, there can be no increase in the agricultural labor productivity rate, and there can be no increase in the agricultural production commodity rate. This is a rationale repeatedly stated in the early part of this article. Development of medium- and small-sized enterprises in cities and the countryside is the main way in which to shift the surplus agricultural workforce.

(4) Development of medium- and small-sized enterprises can bring together the production element in shortest supply, which is money, with the production element in most plentiful supply, which is labor. It can also avoid the great gyrations in the national economy that large scale investment inflation causes.

(5) Medium- and small-sized enterprises, primarily under collective and other nonstate forms of ownership, can greatly ease future tremendous pressure the national treasury caused by welfare support to the aging society.

(6) Future development of market-based medium- and small-size enterprises will have as its goal the next step in system reform, namely the linking together of the market system to ease the shock on society during the reform period. Furthermore, development of markets and changes in their structure is a necessary condition for further development of medium- and small-sized enterprises.

(7) Development of medium and small enterprises will help the further opening up of cities and the countryside. Nowadays, we crown rural medium and small enterprises with the name township and town enterprises, but they are products of the separated city and countryside economic systems. As rural industry shapes new growth nuclei, it will both spur development of secondarily developed rural areas, and also attract medium and small enterprises now in cities to spread into the countryside. Once a unified market has formed, there will be no so-called rural township and town enterprises or medium- and small-sized city enterprises, because rural industry will have to take the urbanized road of development.

(8) Development of medium- and small-sized enterprises helps coastal areas develop an externally oriented economy to carry out a strategy of beginning and ending the production process on the international market by importing large quantities of raw materials and exporting large quantities of finished products.

3.7 In shifting toward a new strategic goal for industrialization that emphasizes development of medium- and small-sized enterprises primarily for the purpose of employing the workforce, we cannot follow the same old disastrous road of dependence on large scale state investment to realize the industrialization goal. For a considerable time to come, the state will have to institute tight fiscal and banking policies. Government expenditures will have to be used primarily for education, science and technology, agriculture, energy, and transportation. Banks will have to strictly control the scale of credit and the issuance of currency. The development of medium and small enterprises will gradually move in the direction of being funded by the people themselves and by financial markets. This will require the fastest possible development of key element markets, and reform of the existing pricing system and distribution system as means of impelling structural changes in the national economy, and improved economic returns for enterprises.

#### *Criticism of Two Simplistic Notions About the Development of Township and Town Enterprises*

3.8 Changes in the strategic goals of China's industrialization will be bound to require further development of township and town enterprises, and standardization of their operating mechanisms during development, stimulation of market development, and the evocation of new state plan regulation and control methods, finally taking the road of integrating the development of cities and the countryside.

3.9 However, two simplistic ideas continue to exist on the township and town enterprise development issue.

One idea sees only the problems that exist in development of township and town enterprises. It blames the development of township and town enterprises and their competition with large industries for raw materials, energy, and funds as the main cause for gyrations in the national economy during the past several years. Those who hold this idea want to call a halt to the development of township and town enterprises, the development of township and town enterprises giving way to large urban enterprises.

The other idea takes up for the township and town enterprises, and vigorously defends them. It denies that the high speed development of township and town enterprises added fuel to the fire that caused the overheating of the economy in recent years.

3.10 We believe that even though the ultra-high speed growth of township and town enterprises during recent years has gradually made manifest their inherent conflicts with large urban industries, and the appearance of various frictions and discords; nevertheless, it is unfair to attribute to the development of township and town enterprises the currency inflation and overheating of the economy that has taken place since 1984. A look at the scale of credit shows loans to township and town enterprises over the years as accounting for no more than approximately 10 percent of the total amount of bank credit, an amount far lower than the percentage of state-owned enterprise bank loans during the same period. In addition, our analysis of the production funds of industrial enterprises under ownership of the whole people, and of township and town enterprises for the period 1978 through 1987 shows a sharp decline since the beginning of reforms in the elasticity values of both labor and technological progress in mathematical functions for industry production in state-owned enterprises, while the elasticity value of capital has risen sharply. During this period, the elasticity value of labor in industrial enterprises under ownership of the whole people was -1.7203, and the elasticity value of aggregate key element production rates was 0.0396, while the elasticity value of capital was 1.0376. During the same period, the elasticity value of labor in township and town enterprises was 0.816554; the elasticity value of capital was 0.57389; and the elasticity value of aggregate key element production rates was 0.04853. This shows

extremely rapid inflation of capital under ownership of the whole people since inflation, which is the main reason for the investment demand inflation and the overheating of the economy during this period. Thus, during the present improvement of the economic environment and restructuring of the economic order, not only is it necessary to put a damper on the speed of development of township and town enterprises, but even more necessary to control the speed of development of large- and medium-sized enterprises under ownership of the whole people to coordinate development of township and town enterprises with development of large urban industries.

3.11 The notion that the development of township and town enterprises should give way to large urban industries is, in the final analysis, to continue in the set pattern of the old national industrial strategy without seeing the necessity for a change in China's industrialization strategy.

3.12 To deny the role of ultra-high speed development of township and town enterprises in adding fuel to the flames of economic overheating and currency inflation during the past several years, and to fail to see the distortions resulting from the high speed development of township and town enterprises during the current situation of skewed prices and separated urban and country markets is likewise simplistic, and harmful in practice.

One most important lesson to be learned from a summation of the country's 40 years of industrialization concerns the anxiety to succeed in the guiding thought in economic development, and the careless, one-sided and subjective understanding of the laws of economic development. Anxiety to succeed in the guiding thought has frequently shown up in three overestimates in the formulation of economic development objectives; namely, overestimation of the economic development situation, overestimation of economic development goals, and leaders' overestimation of their own ability to deal with difficulties and crises. The great economic gyrations of 1948 were classic outgrowths of the anxiety to succeed in the guiding thought. Following completion of the three great reforms of that time, the principal leaders of both the party and government overestimated the economic development situation. They supposed that changes in production relationships could create all sorts of economic miracles. In 1957, Chairman Mao proposed catching up and surpassing England in outputs of steel and other major industrial products, which resulted in the launching of the Great Leap Forward and advances in both city and countryside industry. In 1959 when a tremendous decline occurred in agricultural production and the first symptoms of a crisis became evident, Comrade Mao Zedong still failed to be sufficiently concerned. He overestimated his own ability to handle and deal with the crisis, and he even went to far as to mistakenly launch struggle against Peng Dehuai's rightist opportunist line, which resulted in China becoming mired in a great disaster.

Likewise, the economic gyrations that have taken place since 1984 result from a joint central and local government inflation of this anxiety to achieve success in their guiding thought. After the economic overheating of 1984 brought about a decline in grain production in 1985, and high inflation occurred (the price inflation rate of increase exceeding five percent), numerous comrades continued to maintain that this was a normal phenomenon in the entrance of China's economy into a period of high speed growth. Local leaders were forced to change their poverty and backwardness frame of mind, and to think of ways to advance speedy economic growth in their own areas. During late 1987 and early 1988, on three occasions price signals foretold the possible onset of high inflation in 1988. Despite the already extremely grim economic situation, some people urged inflationary monetary and financial policies, and some people believed that prices did not indicate the state of the economy, but rather a fine opportunity for price reforms. They proposed ideas for further acceleration of price reforms. In July, prices of name-brand cigarettes and alcoholic beverages were raised; and in August, emphasis was placed on jointly pulling through price reforms, preparations made for the removal of price restrictions on most commodities. This increased the people's fears and apprehensions about price rises, setting off a nationwide run on banks and a panic buying spree, which fueled tremendous price rises. The ultra-high speed development of township and town enterprises that took place against this background played a role that cannot be disregarded in promoting economic gyrations and price rises.

3.13 Therefore, during the current improvement of the economic environment and restructuring of the economic order, contraction of the too high speed development of township and town enterprises, and the closing, stopping, merging, and retooling of a number of township and town enterprises that produce poor returns, consume large amounts of energy, and cause serious pollution is completely necessary. Improving the economic environment and restructuring the economic order can stimulate township and town enterprises to tap their internal potential, improve their economic returns, and readjust their industrial structure and product mix, etc. However, a more disadvantageous factor in the long-term development of township and town enterprises is the distortion of township and town enterprises' development resulting from skewed prices. This problem cannot be effectively solved by simply holding down the speed of development. A more fundamental method is a readjustment of product and key element prices in the course of improving the economic environment and restructuring the economic order, development of the market system, and defining the property rights of enterprises. This is also the fundamental goal to be attained in improving the economic environment and restructuring the economic order.

#### 4. Coordination of the Development of Township and Town Enterprises With Agriculture

*Three Stages in the Relationship Between Township and Town Enterprise Development and Agriculture*

4.1 As was said above, one of the most important lessons gained in more than 100 years of development of industrialization in China is that it has been unable to bring about a transformation of traditional agriculture. Industrial development has yet to sustain steady improvement in the agricultural labor productivity rate. Consequently, the conflict between a weak traditional agriculture and high speed advances in industrialization has become a basic conflict throughout the whole historical process of industrialization and modernization.

4.2 Township and town enterprises were born and bred from agriculture. Agriculture is the mother of township and town enterprises, and the development of township and town enterprises has come about, first of all, through its backdoor partnership with agriculture, which has stimulated increase in peasants' income and given impetus to the transformation of traditional agriculture. It is in this sense that we say that the development of township and town enterprises has put up a bridge that makes possible the country's change to a dual economic structure.

4.3 However, yet another aspect of the problem is that during the early period of their development, township and town enterprises still have to rely on accumulated support from agriculture. If the development of township and town enterprises is too fast, that will bring them into conflict with weak traditional agriculture. Therefore, coordination of the development of township and town enterprises with agriculture is an extremely important aspect of the macroeconomic coordination of the entire national economy.

4.4 In view of the character of development of the country's township and town enterprises, and an estimate of future trends, we can divide into three stages the relationship between township and town enterprises and the development of agriculture, namely, the preliminary, intermediate, and high stages.

4.5 Preliminary stage relationship of township and town enterprises to agriculture. The basic characteristics of the relationship of township and town enterprises to agriculture during this stage will be as follows: The rise and growth of township and town enterprises will be dependent on the accumulations of local agriculture including the following: land for enterprises at an extremely low price, the investment of peasant labor, economic surpluses in the hands of residents in the local community (including funds in rural residents' savings accounts), and idle former production team headquarters, warehouses, and low-priced production raw materials. In a situation in which surplus agricultural labor lacks other employment opportunities, the community administrative organization's overall planning can bring into being the minimum key components necessary to run non-agricultural industries. During this stage, the government's low tax and low loan interest policies toward

township and town enterprises will also play a positive role in their development. From the standpoint of the township and town enterprises, support for agriculture will be manifested in the absorption of surplus labor from agriculture. In addition, a portion of township and town enterprises' earnings will be handed over to township and village government organizations to provide subsidies to cadres and to meet expenses of a social nature. This money will substitute for or decrease withholdings from agriculture, thereby indirectly supporting agriculture. During this stage, the output value of agriculture, and the agricultural population will both be far higher than nonagricultural rural output value and the employed population.

4.6 Relationship of township and town enterprises to agriculture during the intermediate stage. The basic features of the relationship of township and town enterprises to agriculture during this period will be as follows: Except for the land that the enterprises occupy, in general, agriculture will not provide township and town enterprises with any other capital accumulations; agricultural accumulations will be used in the development of agriculture itself (not including accumulations provided to large urban industries in the form of the price "scissors"). The further development of township and town enterprises will depend primarily on its own accumulations. The relationship between the two large industrial sectors will be effected through the exchange of products of equal value. In addition, township and town enterprises will have to use some of the profits they earn to compensate agriculture. This is to include the following: (1) microeconomic use of industry to augment agriculture; (2) provision of employment opportunities for surplus agricultural labor; and (3) provision of financial income to enable the state and local governments at all levels to increase investment in agriculture. This kind of indirect support for the development of agriculture from township and town enterprises will be the main component of the relationship between township and town enterprises and agriculture during this stage.

During this state, the output value of township and town enterprises will be far higher than the output value of agriculture. The workforce employed in township and town enterprises will be generally 40 percent or more.

4.7 Relationship of township and town enterprises to agriculture during the high stage. The basic features of the relationship of township and town enterprises to agriculture during this stage are as follows: Traditional agriculture will already have become a modern industrial sector. Development of township and town enterprises will have broken through the prescribed community limits, most of it being concentrated in small industrial zones, or in medium- or small-sized cities. Key markets will be fully developed, and the allocation of available funds between the two main industrial sectors will be decided by competitive market supply and demand relationships. The idea of "township and town enterprises" that came about when cities and the countryside



were cut off from each other will no longer have significance. It should be replaced by the scalar term "medium and small enterprises."

4.8 A realistic look at the present development of the relationship of township and town enterprises to agriculture shows the following: (1) In most places, development of township and town enterprises is at the preliminary stage, i.e., township and town enterprises have not yet developed to where they can provide agriculture with powerful funds support; on the contrary, they still draw key production elements from agriculture. The development of township and town enterprises during this stage has broken through the old pattern that has existed in traditional agriculture for several thousand years; however, at the same time, it also poses a sharp contradiction with weak traditional agriculture. (2) In some developed coastal regions, and around large cities as well as industrial and mining areas, township and town enterprises are already at the intermediate stage of development. Township and town enterprises in these areas must use, and are also in process of using industry to help agriculture and using industry to build agriculture, returning a portion of enterprise profits to compensate agricultural production, promoting an increase in the agricultural labor productivity rate. (3) It will still take a considerable period of time for the relationship of township and town enterprises to agriculture to reach the high-level stage. Even though the situation in some areas shows that township and town enterprises long ago ceased to absorb surplus agricultural labor; that industrial development is already at a certain scale and level, with some small industrial areas already having been built; and that the development of township and town enterprises is taking the course of open urbanization; nevertheless, heading toward high level development still depends on the establishment of nationwide unified markets to bring about the full flow of key production elements on a nationwide scale. It also depends on the township and town enterprises in these areas themselves further perfecting the microeconomic operating mechanism. Even more fundamentally, it depends on traditional agriculture in these areas truly being transformed into an independent, modern industrial sector. Obviously, the foregoing objectives cannot be realized in a short period of time, nor can they be realized through sole reliance on the economic power of individual areas.

*Policy Choices for Coordinating the Relationship of Township and Town Enterprises to the Development of Agriculture*

4.9 In view of the foregoing appreciation and judgments, we believe that in coordinating the relationship of township and town enterprises to the development of agriculture, policy distinctions should be made for those places that are in a stage of development different than the foregoing. Places that have just begun township and town enterprises, and that still have to rely on agriculture for accumulations, the emphasis in coordinating relations between township and town enterprises and agriculture should be placed on stabilizing the existing

family output-linked contract responsibility system. Specific tasks in stabilizing the family contract responsibility system include the following: (1) Making clear that the family contracting system will remain unchanged for a long time in order to buttress peasant confidence about the stability and continuity of the party's rural policies. (2) Vigorous efforts to call a resolute halt to unhealthy tendencies in arbitrarily assessing peasants. Nowadays the peasants say that one tax is light (meaning the state agriculture tax); two taxes are heavy (meaning community collective withholdings); and three taxes are bottomless (meaning various arbitrary exactions). (3) Moderate reductions or exemptions from state-fixed procurement quotas. (4) Removal of restrictions on staple agricultural by-product markets for grain and cotton, permitting collectives and individuals to participate in the flow of agricultural products. (5) Active encouragement of peasants to increase their investment of funds and labor in agriculture. Definite material encouragements should be provided peasant households that increase their investment of funds in the land to obtain steady increases in agricultural production.

Credit policies for the development of township and town enterprises in such areas should be linked to the status of their increases in agricultural production. For all areas showing steady agricultural development, the granting of credit to township and town enterprises should be appropriately liberalized. All areas in which township and town enterprises achieve high speed development at the cost of agricultural growth should be subjected to a strict credit regimen. In addition, those township and town enterprises that take over large amounts of cultivated land, that seriously pollute the environment, and that damage the ecological environment for agriculture must have their development strictly curtailed. Active encouragement should be given to the development of enterprises requiring little investment of capital, that take over little land, and that are labor intensive.

4.10 For those township and town enterprises who already possess a substantial foundation for development, and for developed coastal regions whose relations with agriculture have already entered the second stage, the focus in coordinating relations between the town should be placed on promoting the flow of enterprise profits back to agriculture, using industry aid to agriculture, and industry building of agriculture to transform traditional agriculture for the modernization of agriculture. It should be admitted that current reliance on the administrative power of community governments to force township and town enterprises to allocate a portion of their profits to remedy shortfalls in agriculture, although not an ideal balanced development method for the two sectors of industry and agriculture, under the existing circumstances of insufficient state investment, and the inability of peasants who do family contract to solve the problem of long-term investment in the land, this is a rational and natural choice. Today, the state has to collect taxes and buy grain from the peasants, and it

also has to control rural population increase. These three matters the peasants summarize in the phrase, "want money, want grain, and want life itself." At the same time, peasant households also want the means of agricultural production such as chemical fertilizer, diesel fuel, and farm machines from the state-owned commercial sector. Community governments are important ties that bind the peasants and the state. To even out the conflicts between them, community governments must be in control of a certain amount of financial resources. Therefore, it is of crucial importance for community governments to use their authority for the linking of administrative and economic methods to get funds through the operation of township and town enterprises of various kinds. Unless they do this, community governments will be hard put to moved ahead at all. For example, in Wuxian County in Jiangsu Province, where township and town enterprises are well developed, in recent years township and town enterprises have annually paid out more than 30 million yuan for rural social endeavors. Whenever planned parenthood, requisition grain procurement, the supply of means of production used in agricultural production, road construction, improvement of educational facilities, the building of new cultural facilities, and military conscription tasks fell on grassroots level cadres and resulted in conflicts with the peasants, the wealth that township and town enterprises provided played a very fine lubricating role. As a result, the peasants had a sense of the government's goodness, and the cadres also gained the approval of the masses. One county CPC committee secretary said that without the township and town enterprises, the government would have no appeal, and the masses would have no cohesiveness.

In 1988, township and village enterprises throughout the country paid 1.168 billion yuan in industrial assistance to agriculture, 2.532 billion yuan for rural collective welfare, and 5.682 billion yuan for various rural undertakings. These three disbursements amounted to 36.2 percent of township and village enterprise net profits for the year. Obviously, without the role of community township and town enterprises, full coordinated development of China's rural society and economy would be impossible.

Naturally, there are also marked disadvantages over the long-term in community governments using administrative methods to force township and town enterprises to spend part of their profits so industry can help agriculture. First, such a method makes it difficult for enterprises to accumulate funds themselves, and to develop. Second, it reinforces community government administrative interference in enterprises. Third, it does not help the social sharing of scarce social resources, funds, and land. Fourth, it does not help foster a spirit of self arousal to get ahead and independent competition among peasant households engaged in agriculture, and ability to withstand risks. For this reason, we say that these current measures whereby township and town enterprises help

agriculture cannot substitute for an orientation of long-term coordination between township and town enterprises and the development of agriculture.

4.11 The basic way out for future coordinated development of township and town enterprises and agriculture still lies in the deepening of reform to change the disadvantageous macropolicy environment that the development of agriculture faces, and to change the distortions in the structure for the distribution of income among all industries. This requires development of the key elements market and gradual removal of restriction on prices of agricultural products, ultimately enabling agriculture to become an industry that can stand on its own two feet and from which a profit can be made.

4.12 Developed coastal areas that have already entered the second stage should use family output-related contract responsibility systems as a basis for actively and steadily promoting proper economies of scale in the use of land. This is also an extremely important part of coordinating the relationship of township and town enterprises with agriculture. In addition, of even more importance is the promotion of a rational pattern of township and town enterprises concentrated in industrial zones in a planned step-by-step way. This should accelerate the building of planned dwellings, the staff members and workers of township and town enterprises thereby becoming concentrated in small cities and towns for a gradual separation from natural rural hamlets. This should lead to a situation in which staff members and workers in township and town enterprises voluntarily give up contracted land, thus advancing economies of scale in the use of land. However, generally speaking, in promoting economies of scale in the use of land, coercion and commandism should not be resorted to as a means of getting peasants who have already obtained relatively stable nonagricultural employment opportunities to give up their contract land. Instead, legal and economic methods should be used. Although administrative methods may produce results temporarily, they shake peasant confidence that the government will keep its promise not to change the family contracting system. In an overall sense, this hurts party implementation of rural policies. Some developed areas of Guangdong Province instituted a method that showed rather good results whereby a land contracting fee is collected from the peasants. In the future, the land contracting fee and state requisition procurement quotas may be gradually combined and changed to a land tax. This will make for better continuity and consistency in policies, and also help centralize land use appropriately.

In addition, a stock share land system may be tried out in some developed areas. So long as there is no change in the system of collective ownership of land, the circulation of land share certificates can promote appropriate centralization of land.

In short, with some further liberalization of policies to permit the peasants to explore courageously in practice,

the creativity of the peasants in their hundreds of millions can find a socialist way of farming the land that is in keeping with the country's circumstances.

### **5. Forms and Policy Choices For Macroeconomic Coordination of Township and Town Enterprises With Large Urban Industry**

#### *Choice of Forms of Macroeconomic Coordination Between Township and Town Enterprises With Large Urban Industry*

5.1 Maintenance of coordinated development between township and town enterprises and the main parts of the national economy, and continued maintenance of coordinated development of the entire national economy is our goal. But what form of coordination will attain this goal. There is by no means no unanimity of view on this subject, which merits our discussion.

5.2 In a highly centralized planned economic system, economies are identical in nature in terms of their mode of operation. The entire economic system is able to maintain coordinated operation of all sectors in the economy through plan control.

When shaping the form of coordination between township and town enterprises and the main body of the national economy, if traditional coordination forms are employed, then township and town enterprises that differ in character from the main part of the national economy must be changed so they become the same in character as the main body of the national economy. In other words, the planning system unifies the operation of the national economy as a whole, and the township and town enterprise operating mechanism is supplanted by the plan mechanism. The two insurmountable obstacles that such a choice encounters are as follows:

Use of the planning mechanism to unify everything in the land runs contrary to the economic operating mechanism we have adopted that combines a plan economy with market regulation.

If the planning mechanism is used to supplant the township and town enterprise operating mechanism, that means the abolition of township and town enterprises' right to exist and develop. This is because there is no room or possibility for township and town enterprises to exist and develop within the planning system. The existence and development of township and town enterprises has been, is today, and will be dependent on the market mechanism. If township and town enterprises are to be deprived of their existence and development for the sake of insuring coordination, society will be unable to bear the risks that stem from this.

5.3 Therefore, coordination of township and town enterprises with the main body of the national economy can only be based on maintenance of the township and town enterprise operating mechanism. This means that this coordination will not be a "single track" form of coordination that is traditional and based on an economy of

the same character. It can only be one of a "parallel double track." The size of the "track gauge" is the degree of tolerance for the deviation between the township and town enterprises, and the main part of the national economy. The gauge will vary at different periods of economic development. The operation of township and town enterprises within the gauge that society will accept will be normal. When the development of township and town enterprises goes beyond what society will tolerate, it will become a subject for government policy interference. This will mean that the policy that government adopts in dealing with the relationship of township and town enterprises to large urban industries in the main part of the national economy will be a "deviation coordination" policy, and not a "deviation eradication" policy.

5.4 Allowing the existence of a certain deviation between development of township and town enterprises and the main body of the national economy means that the existence of some frictions and clashes within certain limits and to a certain degree is "legal," and that society should be tolerant of them. If society cannot tolerate some frictions and clashes that lack coordination occasions between township and town enterprises and the main body of the national economy occasion, then it will not be able to enjoy the largesse that the development of township and town enterprises brings.

5.5 In a socialist planned commodity economy, emphasis on coordination between township and town enterprises and the main body of the national economy does not mean the elimination of competition. On the contrary, there can be no coordination without competition. Only when coordination is founded on competition can there be genuinely effective coordination, and only then can a repetition be avoided of taking the old disastrous road of the past of no competition and mandatory coordination bought at the price of a tremendous loss of efficiency. Naturally, competition means limited competition within set limits; there can be no "excessive competition" at the expense of the loss of resources.

5.6 Coordination of township and town enterprises with the main body of the national economy must be complete. Coordination in just certain aspects or levels cannot attain the goal of coordinating the two. This complete coordination includes the following:

#### **(1) Coordination of the operating mechanism**

Coordination of the operating mechanism is the foundation for coordination of township and town enterprises with the main body of the national economy.

Coordination of township and town enterprises with the main body of the national economy is not only necessary, but also possible. Functioning under the "invisible hand," although the operating mechanism of township and town enterprises is flexible in one way, it is not a purely rational "economic person," and it also develops haphazardly in another way, creating a tremendous

waste of resources, and frequently requiring plan guidance. However, even though state-owned enterprises as a main component of the national economy reduce the haphazard nature of development through the role of plan levers, their rigid structure, inflexible operation, and inherent lack of power requires the impetus and stimulation of market forces. In addition, state plan has to be founded on control over market demand and scientific forecasting of market development trends, market inspections and revisions being used to improve the accuracy and feasibility of plan. Such a strengthening of the plan nature of township and town enterprises through guidance of the market mechanism, and such a strengthening of the market nature of state-owned enterprises through guidance of the planning mechanism results in a very great decrease in the degree of divergence between the operating mechanisms of township and town enterprises and state-owned enterprises. This lays a foundation for the two to build new type coordination mechanisms through economic agreements.

#### (2) Coordination of the power mechanisms

Coordination of the power mechanisms of township and town enterprises, and of the main parts of the national economy means mostly strengthened power within state-owned enterprises, and weakening of some of the power of township and town enterprises. State-owned enterprises must deepen enterprise reform, and toughen restrictions on enterprises so that they gradually become independently operating commodity producers under guidance of state plan, with increased power for development. Township and town enterprises should use system reform to normalize their government financial relations and to weaken development power derived from the community.

#### (3) Information system coordination

Township and town enterprises should maintain the existing information mechanism in which lateral price information predominates as a foundation for improving their vertical sources of information. They should pay close attention to state industrial policy guidance, and form vertically and horizontally intersecting, complete information networks and mechanisms. State-owned enterprises should use maintenance of their vertical information mechanism, in which quantity information predominates, as a foundation for making greater use of lateral market information. In this way, township and town enterprises and state-owned enterprise information mechanisms will approximate each other.

#### (4) Coordination of speed of growth

During the past several years, the speed of growth of the entire economy has been too fast, exceeding the tolerance of society. Readjustments had to be made to lower the overly rapid speed of growth. The Fifth Plenary Session of the 13th Party Central Committee decided to concentrate efforts on improvement of economic returns, the quality of the economy, and the level of

science and technology as a basis for maintaining appropriate economic growth, keeping increase in gross national product at between five and six percent per year. On the basis of the proportional relationship between increase in gross national product and industrial output value, increase in gross industrial output value for the country will have to average between seven and eight percent each year. Such a speed of industrial growth is less than half the 17.6 percent average annual speed of growth during the years 1984 through 1988. In order to maintain coordination with growth in state-owned enterprises, the overly high speed growth of township and town enterprises of the past period will have to be reduced to an appropriate level. In setting a speed of growth for township and town enterprises, account will have to be taken of both the need to shift the workforce into jobs and economic development, as well as the limitations of natural resources. An overall analysis of factors in several regards shows the speed of growth of township and town enterprises should be maintained at approximately 12 percent. Of course, the situation throughout the country varies greatly from place to place, so the speed of development of township and town enterprises cannot be arbitrarily set. A somewhat higher speed of growth may be permitted in areas in which township and town enterprises are well developed. However, for the country as a whole, real changes have to be made in the tendency of township and town enterprises to seek high speed growth above all in the course of their development, the emphasis placed instead on advancing technological progress and improving economic returns.

#### (5) Coordination of the industrial structure

The goal in coordinating the industrial structure of township and town enterprises with that of the main body of national economy is to change the sameness of the industrial structure to meet society's needs. The key to attainment of this goal lies in a proper division of labor between township and town enterprises and state-owned enterprises, readjustment of the pattern of allocation of available resources, and hastening the development of basic industries.

1. Making the state-owned economy industrial structure perform better. This includes making full use of the advantages that state-owned enterprises' technology, funds, and equipment provide, vigorously developing a gradual withdrawal from traditional industries of newly developed industries, providing room for township and town enterprises, and reducing excessive competition between the two at the administrative level.

2. In accordance with the principle of concern for both social and economic benefits, a division of labor should be made between city and township industries, and the limits of use and the level of use of resources rationally set for township and town enterprises, and for state-owned enterprises. Generally speaking, labor intensive industries and industries that do primary processing of



resources should be under township and town enterprises for the most part. State-owned enterprises should devote themselves primarily to technology-intensive and capital-intensive industries, vigorously performing deep processing to improve the added value of resources. A very important problem confronted here is the problem of processing agricultural by-products. In order to prevent competition for raw materials between township and town enterprises and state-owned large industries, the state has repeatedly emphasized that township and town enterprises should mostly develop agricultural by-product processing industries, but it has not taken attendant actions for implementation. Suitable portions of most agricultural-by-products that could have been given to township and town enterprises for processing have been bought up by the state, state-owned enterprises doing all processing from the rough to the fine. If this continues, it will not only cause township and town enterprises to lose sources of raw materials for agricultural by-products processing industries, but it will also mean that state-owned industries will be unable to improve their technological level because they are confined to the rough processing of resources. This will also intensify frictions and clashes over the use of resources between township and town enterprises and state-owned enterprises. Thus, blame for the competition for raw materials between township and town enterprises and state-owned enterprises cannot be entirely placed at the doorstep of township and town enterprises; in some cases state-owned enterprises are to blame, and in some cases lack of associated state policies is responsible. Solution to this problem requires not just accelerated production of agricultural by-products, but the adoption of comprehensive measures. There can be no simple exclusion of township and town enterprises. In terms of future development, the present agricultural by-products processing pattern should be gradually readjusted. 1) The amount of state-owned enterprise processing of agricultural by-products should be gradually reduced, a greater proportion going to township and town enterprises. 2) A division of labor should be made, township and town enterprises being responsible primarily for the primary processing of agricultural by-products, and state-owned enterprises being responsible for fine processing.

3. Accelerated development of basic industries. To a very great extent, the lack of coordination between township and town enterprises and state-owned enterprises stems from the lagging development of basic industries, and the inadequate supply of resources. Because of the shortage of resources, production capacity, which is by no means excess relative to demand, lies idle. This creates clashes and frictions between township and town enterprises and state-owned enterprises. Therefore, development of basic industries has to be accelerated now to increase the supply of resources, township and town enterprises and state-owned industries thereby finally attaining goal of coordination of the total amount through coordination of increased amounts.

4. Township and town enterprises should readjust their internal structures, lower the speed of development of secondary industries, and accelerate development of tertiary industries.

#### (6) Coordination of product mix

In view of market demand and attendant technological requirements, township and town enterprises as well as state-owned enterprises should make some division of labor with regard to the products they produce. The level of technology in state-owned enterprises is high, so they should be largely responsible for the updating of products, improving product quality, and for producing high quality, precision, and top-notch import-substitution products to meet needs for high quality. Township and town enterprises should mostly produce ordinary products for mass use to satisfy people's daily needs.

#### *Choice of Coordination Methods and Policies*

5.7 In order to realize the goal of coordinated development between township and town enterprises and the national economy, government must apply various policy tools that are mutually coordinated. These policies include the following:

#### (1) Government industrial policies

Correct delineation of the industrial fields into which state-owned enterprises, and township and town enterprises may go is the foundation for rational coordination.

Government should draw up pertinent industrial policies on the basis of needs for national economic development, and the level of development of both state-owned enterprises and township and town enterprises, and guide a rational division of labor between township and town enterprises and state-owned enterprises. It should explicitly prescribe which fields and which industries are suitable for state-owned enterprises, which ones are suitable for township and town enterprises, and in which ones both can take part in and compete with each other. This should be used as a basis for determining in which of the fields and industries township and town enterprises should be encouraged to continue in, which ones they should limit production, and which ones they should halt production forthwith. In view of the tremendous employment pressures in the country's rural villages, the standards for formulating industrial policies should be as follows: So long as resources and the ecological environment are protected, all industries for which the technological level and management level of township and town enterprises meet requirements, and whose economic returns are not low, should, insofar as possible, be handled by township and town enterprises. In fields in which both state-owned enterprises and township and town enterprises currently take part, so long as township and town enterprises can supersede state-owned enterprises in increasing the percentage of funds they put up themselves and their profit rate on capital, township and town enterprises should take over.

## (2) Resources distribution policy

We currently have a shortage of national resources, so an important policy method for coordinating the development of township and town enterprises and state-owned enterprises is distribution of scarce resources.

In order to effectively advance national economic growth and increase economic efficiency, the dividing up of resources between township and town enterprises and state-owned enterprises should be based on the benefit principle. However, in actual economic life, resources are distributed on the basis of the system of ownership, resources going first to state-owned enterprises and then to collectively owned ones. The amount of resources allocated for township and town enterprises in overall state balanced plans is exceedingly small, far lower than township and town enterprises' output value share and employment share in the national economy, and also lower than the share of resources needed for township and town enterprises' normal growth. In order to be able to survive and develop under these circumstances, township and town enterprises have no choice but to resort to various methods, including some improper ones, to get scarce resources, even to the point where actual growth of township and town enterprises frequently exceeds state-set shares of resources and speed of development. Thus, in order to coordinate development of township and town enterprises with the national economy, coordination has to have as its starting point the economy's operating process, meaning to begin with the distribution of resources. In principle, there should be a sharing of resources with township and town enterprises that matches their scale, but on a case-by-case basis. More should be given to those that conform to government industrial policies, and less to those that do not. The specific allocation method used may be the blocking out of an amount to be passed down to enterprises level by level, use of market regulation, or resort to a combination of the two methods to provide township and town enterprises with a relatively stable source of supply of resources, thereby reducing clashes with state plan, and decreasing frictions and disharmony between township and town enterprises and state-owned enterprises over energy, and over raw and processed materials. Enterprises that conform to state industrial policy requirements, that show good economic returns, and that export to earn foreign exchange should be given priority in the allocation of resources.

## (3) Credit policy

Most township and town enterprises operate with a debt burden. Approximately 60 percent of township and village industrial enterprises are in debt; thus, state credit policy has a fairly strong influence on township and town enterprises. Maintenance of coordinated development between township and town enterprises and state-owned enterprises will require the formulation of attendant credit regulation policies that meet government policy requirements.

During the period of improving the economic environment and restructuring the economic order, in order to lower to a normal level the overly rapid growth of township and town enterprises, adoption of measures to lower the speed of growth of township and town enterprises' credit, or even to permit zero increase in some cases, is necessary. Once the development of township and town enterprises revives to a normal level, credit funds may also be correspondingly increased. An extrapolation of the correlation between the development of township and town enterprises, and the availability of credit funds, shows a speed of increase in credit funds that is slightly lower than the speed of growth of township and town enterprises. If the future speed of growth of township and town enterprises is held at around 12 percent, the speed of increase in credit funds should be held at around 10 percent. In this way, the basic needs of township and town enterprises for normal growth can be satisfied, and the coordinated development of township and town enterprises with the main components of the national economy can also be advanced.

## (4) Tax policy

Taxes are one of the most important levers for the regulation of macroeconomic activity. Coordination of the relationship of township and town enterprises to large urban industries should include the following two tax policies.

### 1. Standardize Tax Collections, Unify Tax Payments, and Create a Climate of Equal Competition

China's present tax system is an unstandardized soft tax system. Tax collection policies are different for township and town enterprises than for state-owned enterprises; tax payments are disproportionate, light in some cases and heavy in others, and very unfair. For example, one preference that state-owned enterprises enjoy is repayment of loans before taxes, while township and town enterprises repay loans after taxes. Local governments grant large scale tax reductions and exemptions to township and town enterprises by way of protecting them, with the result that township and town enterprises' actual tax payments are lower than those of state-owned enterprises; however, township and town enterprises carry heavier nontax burdens.

In order to assure coordinated development between township and town enterprises and state-owned enterprises while maintaining high efficiency, fairness in the payment of taxes is the place to begin, an equal competitive environment established. Doing this will require reform of the current tax collection system, standardizing and unifying tax payments. This means that unified tax collection standards should be applied to both state-owned enterprises and township and town enterprises. The problem that has to be solved here is the nontax burdens that township and town enterprises carry. However, the nontax burdens of township and town enterprises is a complex problem. They cannot be abolished all of a sudden; transitional measures will have to be

adopted. A fairly realistic method is to standardize and regularize the nontax burdens of township and town enterprises to prevent arbitrary levying of fees, and then gradually evolve toward a local tax.

## 2. Institution of a Differential Tax Collection Policy

In order to encourage or restrict the development of some firms, flexible differential tax policies should be adopted on the basis of state industrial policy requirements, and the orientation of township and town enterprises structural readjustment. Tax reductions, exemptions, and increases should be used to attain this objective. In order to prevent arbitrary use of this power, the limits of administrative authority for changes in tax collections should be centralized.

### Footnotes

1. Quote from Zhou Gucheng's [0719 6253 1004], "Contemporary Chinese Economic History," p 68.

2. Quoted from Wu Chengming's [0702 2110 2494], "Chinese Capitalism and Domestic Markets," Social Sciences Press, 1985, p 109.

3. The foregoing forecasts derive from Chinese Academy of Sciences, National Situation Analysis Team Research Report, *Survival and Development*.

## LABOR

### Shanghai Firm Supplies Labor to Foreign Business

OW1208073590 Beijing XINHUA in English  
0651 GMT 12 Aug 90

[Text] Shanghai, August 12 (XINHUA)—A company catering to foreigners living or working in China's largest city, Shanghai, is endeavoring to make its service more complete.

The six-year-old Shanghai Foreign Service Company has so far supplied more than 1,000 Chinese employees to more than 300 foreign business branch offices in the city, according to general manager Wang Yang.

By the end of last month, the number of branches of foreign business in Shanghai had reached 513. And the company is the only organization authorized by the city government to supply employees to these offices.

"What foreign business people need is what we have. So we are now providing whatever kind of people foreign business needs by whatever kind of means," Wang said.

The company currently supplies employees of the company to foreign businesses, borrows people from other units in the city, or allows foreign business people to choose on their own the kind of people they need, he added.

But the sending of employees does not mean an end to the service, he said. Every year the company calls back the employees to attend training courses to discuss how to be a better employee.

In addition, the company also works with other social organizations to hold courses for the training of senior service personnel and secretaries for foreign employers.

During the initial years of the company, some foreign branches were reluctant to take employees from the company and went directly to the local job market.

But most of them eventually gave up selecting their own employees because people from the company are generally more skilled and better trained than staff employed directly from society, Wang said.

He also said the company not only sends employees but also provides services to help business people establish offices and small-scale trade.

The company, for example, has set up a business liaison department which can act as a branch office for foreign business people and deal with trade opportunities for the business.

In this way, Wang said, foreigners can find out whether their offices will be profitable or not without initially having to go to the expense of setting up an office of their own.

He said more than 20 foreign branch offices in the city have been established by this means.

The company also acts on behalf of foreigners to apply for the setting up of branch offices, he added.

By the end of the year, the company will have completed a building providing office space affordable for medium and small-sized overseas enterprises, Wang revealed.

The company has also paid great attention to providing more entertainment to foreign business people and their wives. It has, for instance, organized various educational programs to teach foreigners Chinese, Chinese calligraphy, painting and dancing.

### Chen Muhua on 'Low' Number of Female Officials

OW1808202590 Beijing XINHUA in English  
0715 GMT 18 Aug 90

[Text] Beijing, August 18 (XINHUA)—Some 9.65 million Chinese women are working in leading posts at various levels across the country, 65 times more than the figure for 1951, the "PEOPLE'S DAILY" reported today.

Women account for 7.99 percent of all officials at the county level in the country, the paper noted.

Chen Muhua, president of the All-China Women's Federation, called the ratio "rather low" and drew the attention of party committees at all levels to this problem.

A commentary in the paper said that many talented women have risen to prominence in the wake of China's economic reform, including a large number who have participated in party and state affairs.

It urged party committees to create more favorable conditions for the promotion of women cadres.

### **Polytechnical Schools, Students Increase**

*OW0908073190 Beijing XINHUA in English  
0946 GMT 8 Aug 90*

[Text] Shenyang, August 8 (XINHUA)—About one-fifth of China's 40 million skilled workers are polytechnical school graduates, according to a senior official of the Ministry of Labor.

The official said the number of polytechnical schools has increased from 1,333 to 4,102 over the past decade, and their enrollment has increased from 244,000 to 1.26 million.

In 1989, apart from training technical workers, the official said, the polytechnical schools also trained about 500,000 senior technicians, unemployed youths, workers and soldiers to be demobilized.

## **TRANSPORTATION**

### **Construction of Ports, Highways Planned**

*OW1108075090 Beijing XINHUA in English  
1357 GMT 10 Aug 90*

[Text] Jinan, August 10 (XINHUA)—China will complete 30 deep-water berths and 12,90 km of highways this year, according to a national meeting held in Yantai City, Shandong Province.

This year is the last year of the Seventh Five-Year Plan and most of the plan's transport facilities under construction will be completed this year.

The new deepwater berths are located in the ports of Dantong, Yingkou, Qingdao, Yantai, Shijiu, Shanghai, Nanjing, Lianyungang, Hainan, Tianjin, and Fuzhou.

Moreover, seven river berths will be put into operation this year.

The meeting was told that 1990 will see 23 new highways open to traffic.

The new highways to be completed this year include three expressways—from Shenyang to Dalian in Liaoning Province, from downtown Shanghai to a county on the outskirts, and from Xian to the tourist resort of Lintong, where the world-renowned first emperor's tomb is located.

### **Beijing-Tianjin Freeway Set To Open**

*OW1408125290 Beijing XINHUA in English  
1125 GMT 14 Aug 90*

[Text] Beijing, August 14 (XINHUA)—The Beijing-Tianjin section of the 142-km Beijing-Tianjin-Tanggu freeway is scheduled for completion August 25 and will be open to traffic by the end of the month.

According to the Ministry of Communications, the 83.8-km expressway section from the Chaoyang district in Beijing to the Yangcun area of Tianjin, a port city in northern China, will help ease the traffic pressure in the Chinese capital during the forthcoming 11th Asian Games.

It will take only one hour, about half of the original, for a car to cover the distance from Beijing to Tianjin when the freeway is open, an official from the ministry said.

A key state project, the Beijing-Tianjin-Tanggu expressway will cost 820 million yuan, financed in part by a World Bank loan. Construction of the project began in 1987 and the whole length is expected to become operational in 1992.

### **Northern Xinjiang Railway Reaches Alashankou**

*OW1208141790 Beijing XINHUA Domestic Service  
in Chinese 0401 GMT 9 Aug 90*

[Text] Urumqi, 9 Aug (XINHUA)—After more than five years of hard struggle by some 10,000 construction workers, the laying of track for the Northern Xinjiang Railway, which has caught the world's attention, was completed up to Alashankou Station on 9 August. It was ahead of schedule. Currently, the track is extending to the Sino-Soviet temporary connecting point, 4 km away.

The 459-km Northern Xinjiang Railway has been a major railway construction project in the west for the state's Seventh Five-Year Plan. It begins from Urumqi's West Station, extending westward along the northern route of the Old Silk Road, passing through nine counties and cities, and finally reaching Alashankou on the Sino-Soviet border. It is an important component part of the "Second Eurasian Continental Bridge" linking Europe and Asia. Its construction has been jointly financed by the state and Xinjiang, with a total investment of over 800 million yuan.

## **AGRICULTURE**

### **Pyrethroid Microcapsules Effective Against Insects**

*90CE0411A Beijing KUNCHONG ZHISHI  
[ENTOMOLOGICAL KNOWLEDGE] in Chinese No 3,  
1990 pp 155-158*

[Article by Wang Sirang (2769 1835 6245) and Long Meiyun (7893 5019 0061): "Research on the Use of Pyrethroid Microcapsules"]

[Abstract] Research conducted at the Plant Protection Department of the Anhui Academy of Agricultural Sciences during 1986 and 1987 showed remarkable results



from the use of three different pyrethroids in microcapsule form against various insects. Capsules of unspecified size made by the high polymer research laboratory at Anhui University and containing 37.8 percent dichlorobenzylether-pyrethrin, 37.5 percent chlorocyanopyrethrin, and 24.93 percent cyanopentan-pyrethrin killed 90 percent of red flour beetles, pea aphids, small cabbage moths, and armyworms six days following application. Residual effectiveness lasted 24 days for red flour beetles, and about 15 days for the other three kinds of insects. Effectiveness was about the same, or slightly higher each than for emulsions [ruiyou 0050 3111]. The pyrethroids were effective for a longer period than emulsions, fewer applications were required for like or higher effectiveness, and toxicity to man and animals was less.

Tests were performed in the academy's laboratory and experimental plot.

Article details the methods used and the results obtained. Five easy-to-understand tables succinctly summarize all the results.

### Peasant Enthusiasm Called 'Key' to Agriculture

90CE0223A Beijing LIAOWANG [OUTLOOK]  
in Chinese No 17, 23 Apr 90 pp 25-26

[LIAOWANG interview with Li Haitao (2621 3189 3447): "Thoughts on Further Arousing the Enthusiasm of Peasants"; date, place not given]

[Text] Agricultural issues are now eliciting universal concern from the entire party and society. If agriculture is to achieve better development, the key is to further arouse the enthusiasm of peasants. A reporter recently interviewed Li Haitao, head of the Henan Province Agricultural Economy Committee's Rural Policy Research Office and asked him to give his views on this issue.

[LIAOWANG] Rural issues in the final analysis are peasant issues. If agriculture is to advance to a new level, the key question is how to further arouse the enthusiasm of peasants under current conditions. Could you please share your thoughts?

[Li] All right. Our Research Office has recently carried out a study and has drawn some conclusions. I'll talk about everybody's views. It's me saying these words, but the views are shared by everyone. During the first phase of rural reform, we established the system of contracted responsibility on the household basis with remuneration linked to output. This broke the influence of the left, which had led to "big winds," [i.e.—short, frenzied campaigns to achieve some poorly thought out objective] and the "communal rice bowl." It enabled us to arouse the enthusiasm of peasants, and only because of this have the breakthroughs in agricultural development been achieved in recent years. However, this doesn't mean that all rural problems have been solved. New problems have now appeared which obstruct our efforts to arouse the enthusiasm of peasants.

[LIAOWANG] What problems, primarily?

[Li] From the peasant's perspective, the main problems are as follows:

1. The dual management system has some problems. The system is particularly weak on the level of unified management. It doesn't meet the current needs of agricultural development. The system of contracted responsibility on the household basis with remuneration linked to output is a type of dual management system adopted in accordance with actual conditions in every locality. Where unified management are called for, they are used. Where decentralized household management is called for, it is used. This system incorporates the superiority of service which is carried out in a unified manner under public ownership, as well as the enthusiasm that comes with contracted operations on the household basis. The two things play roles which are mutually nonsubstitutable, so we cannot favor or abandon either one of them, otherwise it would certainly affect our ability to take full advantage of the benefits we have obtained through the reforms. In practice, however, many localities have paid attention only to the "household" aspect while ignoring the "unified" aspect, with the result that most agricultural contracts are not comprehensive enough. There is no authoritative government department to carry out scientific and effective management of these contracts, and conflicts connected with these contracts are not resolved in a timely, correct manner. For example, readjustments have not been carried out since the majority of land was contracted out. In some places, not only is land broken up into small, scattered plots that are difficult to plant, but changing demographics have led to a situation in which different peasants contract different amounts of land. Added to this is the fact that most peasants are not able to engage in any business other than planting, which has given rise to newly poverty stricken households in some localities. In particular, the weakness of unified operations and unsound state of unified services have caused households to encounter problems which they are hard put to solve using their own resources. This has stifled our efforts to arouse enthusiasm for household-based operations.

Saying that the "unified" aspect is weak is in no way a call for "a return to the heap," i.e.—a return to the system in which all responsibility and profits were shared collectively. The system of contracted responsibility on the household basis with remuneration linked to output shall not be challenged. With regard to the "unified" aspect, the main problem right now is that the service system is not sound, and social services in every area cannot meet demands. At this time, the direct organizers of the production and commercial activities of the broad masses of peasants—administrative villages—lack economic strength in most cases, and their accumulation and service functions have been weakened. The service organizations of most administrative villages are unsound. Many service organizations at the village level have hung a shingle, yet they have not actually begun to provide any services. They are service organizations in name only. Some service stations are

one-man operations. Some lack funds and materials, so they cannot do anything. Although we have repeatedly stressed the need to establish a sound service system, many localities have failed to really carry out our directives. Although we have made investments to establish a group of service centers at the county level in recent years, in many cases, "once the new building is constructed, it remains empty inside and service remains the same as always" a service mentality and service experience are lacking.

2. Work on agricultural science and technology is not being applied. A certain amount of progress has been made in recent years in work on agricultural science and technology, but it has fallen far short of playing its proper role. For example, wheat is Henan's main crop, and most strains have been planted for ten years or more. Improved strains of some crops have been spread very slowly. For example, an improved strain of soybeans planted in Hua county yields 150 kilos per mou, *yet an old strain which yields only a bit over 50 kilos per mou is still being planted in Taiqian county, less than 100 kilometers away. Some localities have implemented intensive operations and have achieved a multiple cropping index of 240 percent, yet many localities continue to go by traditional planting customs, and their multiple cropping indexes are only about 150 percent. Many very common and practical techniques, such as interplanting corn with wheat and corn detassling, have yet to be spread to many areas.*

3. Management and supervision are branches of science, and they are important parts of agricultural production. Because our agriculture was in a state of subsistence or semi-subsistence farming for a long time, management and supervision have always been rather backward. Since entering into the new period in which we have been developing the planned commodity economy, management and supervision have been relatively weak, which has led to a waste of great quantities of funds, materials, and labor. We must now elevate scientific management and supervision to a position of primary importance in order to take full advantage of the labor, materials, and funds now at our disposal. [LIAOWANG] All the things you have mentioned are problems with rural society and agriculture themselves. Apart from that, there is an external element to the problem of agricultural development. Could you give us your views on this aspect of the issue?

[Li] Okay. The idea that we must take agriculture as the foundation is not firmly rooted in production sectors outside of agriculture. Work to support and serve agriculture is not meeting the development requirements of agriculture, and this situation is limiting the implementation of unified operations in villages and hamlets. Our common economic interests lie in a mutual understanding between different sectors and industries, in mutual support and service, and in the motive force that flows when everyone develops together. Agriculture and economic/technical departments that serve agriculture used to be an organic whole, but they have become

separated under the current system of management, which has led to an attitude which prompts people to protect only the interests of their own sectors. This has caused support and service of agriculture to be a matter of mere lip service. People talk more than they act. Incidents in which agriculture is crowded out, blocked, and obstructed occur from time to time in every locality.

[LIAOWANG] So what must be done under the current circumstances to make agriculture advance to a new level?

[Li] In order to solve the various new difficulties that I just described that have been encountered in the development of the rural economy, every locality has already or is presently taking such measures as local conditions allow, and they are boldly exploring and creating new ways of doing things. For example, after carrying out experiments and demonstrations, two places in Henan province, Jiaozuo and Zhengzhou, have implemented a dual contract responsibility system in recent years, and significant successes have been obtained (this publication already carried an article on the dual contract responsibility system in this year's ninth issue). Every level of government has taken the lead in organizing forces in every quarter to enable the dual contract system to provide more comprehensive service to agriculture and peasants and bring about a better combination of such production factors as land, labor, materials, technology, and funds. This is a new mechanism for mobilizing the entire Party and all the people to vigorously participate in agriculture, and for organizing the various industries to treat agriculture favorably. Looking at the results in the various localities, it appears that wherever the dual contract responsibility system has been adopted, good results have been obtained. Practice has proven that dual contracting is a new development upon the system of contracted responsibility on the household basis with remuneration linked to output, and it is an important step toward deepening rural reform and further improving rural relations of production. This facilitates the optimum combination of production factors, helps to achieve economies of scale in a greater number of agriculture service industries, and contributes to the improvement of the dual management system in which "unified" and "household" aspects are combined. In addition to all of this, it also facilitates the government's macroeconomic regulation and control of agriculture, as well as the government's efforts to combine a planned agricultural economy with the market regulatory mechanism. It will also facilitate an improvement of the work practices of cadres at the grassroots level. It will make relations between the party and the masses more intimate, as well as those between cadres and the masses.

In short, there is a lot we can do to improve the reforms and policies already in place. As long as we act in a manner consistent with local conditions and vary our measures according to the locality in question, we will definitely be able to achieve success.

[LIAOWANG] This a forceful measure for deepening reform and perfecting the system of contracted responsibility on the household basis with remuneration linked to output. There is no doubt that it will spur development of production. Apart from this, what measures are being taken in the various localities?

[Li] At the same we carry out policies and measures to take advantage of untapped potential, we must be aware of the fact that agricultural development requires a certain amount of investment. With state fiscal resources stretched to the limit, and with most cooperative economic organizations in a weak position, these investments must of course come primarily from the savings of peasants themselves. However, agriculture is an industry which produces relatively low economic benefits, and the savings of peasants themselves are limited. This is one of the more pronounced problems which we have encountered.

[LIAOWANG] How is it to be resolved?

[Li] I think there are two ways to approach the problem. For one thing, we must think of ways to get industries other than agriculture to direct more inputs to agriculture in order to accelerate the development of agriculture. The second thing is to regulate profit distribution between agricultural production and the processing and marketing of various products. In the entire process of production, processing, and marketing of agricultural products, disparities between the profits accruing to different links (in other words, between different industries and sectors) are too sharp. That is to say that the profits accruing to the production link are low, while those accruing to the processing and marketing links are high. Sometimes when agricultural production falls, peasant incomes drop, while those accruing to the industrial and commercial links have always risen.

[LIAOWANG] Of course, the issue of unfair distribution of profits is a very complex one which cannot be solved all at once. How is the situation in Henan in this regard?

[Li] The issue is indeed complex, but many facts show us that it is not impossible to readjust this distribution in any way. Even if large adjustments are impossible, we can still use various methods to make a lot of small adjustments. The profits of the agricultural, industrial, and commercial links, as well as the production, supply, and marketing links are combining directly with each other, and they are developing into a common interest entity. This will provide a forceful impetus to efforts to change the current situation in which sectors have cut themselves off from each other, refuse to cooperate, and obstruct each other's plans. At the same time, it will rely on the restrictive power of the mechanism to spur the various industries to carry out the program of support for agriculture. Various localities have already created many methods for carrying out small scale readjustments, including:

1. Agriculture, industry, and commerce as well as production, supply, and marketing are being integrated into

a single, new economic entity. That is to say that by using administrative organizational effects and economic methods, the agricultural, industrial, and commercial links (as well as various sectors involved in serving agriculture) are being combined in an effort to improve service to agriculture as it develops economically. In the process of mutual service and development, we are achieving a situation in which everyone shares in profits and risks. Everyone spurs each other on, and we develop as a single entity. In Tangyin county, for instance, the Livestock, Industrial, and Commercial Corporation there, which produces primarily chickens for their meat, was set up through the joint efforts of the Livestock Bureau, a foodstuffs corporation, and a feed plant. The production, supply, and marketing departments at a higher level are coordinating their service, and at the grassroots level, the corporation is linking up with countless households and balancing the profits of every link by means of the corporation's unified prices and unified standard for service fees. It now produces between three and four million chickens. Not only have peasant incomes increased, but the foodstuffs and feed companies both turned into profit-makers, which they had not been before. The livestock department is also strengthening itself by providing services for which compensation is received.

2. Currently operating state-run industrial and commercial are going to the countryside to establish commodity and raw materials bases. In so doing, they are directly supporting agricultural production and making agriculture provide them with a dependable source of goods. Some wineries, supply and marketing departments, foreign trade departments, and commercial departments in eastern and western Henan have established bases for agricultural and sideline products. Some large scale enterprises in Luoyang and Zhengzhou have also established bases for nonstaple foodstuffs in the countryside, and both have yielded relatively good results.

3. The government is taking the lead by extracting a certain quantity of technology improvement funds from the agricultural and sideline products commercial link and using it to promote the development of agricultural technology. Since 1986, Fugou county has already extracted over six million yuan, greatly enhancing the spread of agricultural technology and promoting the development of agricultural production.

In addition, some districts have raised funds from electricity-consuming industrial departments to develop local electricity generation, thereby advancing the mechanization and electrification of agriculture.

None of the small scale readjustments of the industrial and commercial links that I have mentioned will affect

the state's fiscal revenues or the overall situation of enterprises, but they support and promote agriculture in a forceful manner, and they can initiate agricultural development in many districts. Practice has proven that after agriculture has become developed, the benefits enjoyed by the industrial and commercial links will greatly exceed this little contribution to agriculture. Therefore, for the industrial and commercial links, this does not represent an attempt to "cut out a piece of their flesh to cure a boil," i.e.—it is not a resort to a cure which is worse than the ailment. Rather, it will spur their development. If it could be said that in the beginning of the rural reforms we handled interest relationships between the state, collectives, and individuals relatively well, thereby spurring agricultural development and revitalization of the national economy, then in the process of deepening rural reform, we are bringing order to interest relationships between agriculture, industry, and commerce, and we are establishing a new mechanism adapted to the development of the commodity economy, all of which is being done on the precondition that we must develop production in the planned commodity economy and revitalize the economy. This will play an important role in spurring agriculture to advance to a new level and promoting coordinated and stable development of the entire national economy.

[LIAOWANG] I imagine a lot of work still has to be done if these methods are really going to be implemented.

[Li] That's true. Because we had long been under the influence of a system in which different sectors had cut themselves off from each other, and because the idea that the economy should grow as a coordinated whole and that different industries should rely on each other has been lacking, it is understandable that the industrial and commercial sectors have always asked, "Why should we hand over profits to agriculture for nothing in return?" To solve this problem, one thing we must do is to strengthen propaganda and education, raise the level of people's understanding, unify thought, speak sensibly on theoretical issues, and do more to publicize experience in this area. A second thing we must do is to proceed forward in a methodical, step-by-step manner, starting with experiments and expanding from there. We must act in a manner consistent with the requirements of local conditions, and use many different methods. A third thing we must do is act in moderation and base ourselves on the principle of developing the economy as a whole as we carry out appropriate readjustments.

### Effects of Agricultural Prices on Macroeconomic Goals

90CE0244A Beijing NONGYE JINGJI WENTI  
[PROBLEMS OF AGRICULTURAL ECONOMY]  
in Chinese No 5, 23 May 90 pp 34-39

[Article by Sun Lizhao (1327 4409 3564) of Qinghua University's College of Economics and Management:

### "An Empirical Analysis of the Effects of Agricultural Product Prices on the Macroeconomic Objectives"]

[Text] Since the restructuring of the economic system, the economic entities have acquired a better sense of the commodity economy and have been given more decision-making authorities. They are more conscious of the need to respond to price changes and are able to respond better and faster. The economic entities' response to price changes inevitably affects the macroeconomic object variables. This article uses the results generated by econometric models as the basis to explore the effects of changing agricultural product prices on the macroeconomic object variables, especially the effect on the supply and demand of agricultural products, the stock of money, economic development, inflation, and the government's financial subsidies. Finally, based on the result of the empirical analysis, we will make a brief assessment of different agricultural pricing policies.

### I. Agricultural Product Prices and the Fluctuation in Supply and Demand of Agricultural Products

Increasing agricultural supply is the basic task of China's long-term agricultural development, but it is not the only policy goal. What the government seeks is balanced supply and demand of agricultural products.

Because of the price elasticity of supply and demand of agricultural products and because production lags behind price regulation, a change in agricultural product prices will necessarily cause the supply and demand to fluctuate, and this will come around in full circle to affect prices. The "cobweb model" in economics explains very well the law of mutual effect between supply and demand of agricultural products and prices which in turn causes the supply-demand fluctuation. Stability of supply and demand depends on their price elasticity. If the absolute elasticity of supply (that is, the absolute value of elasticity) is smaller than the absolute elasticity of demand, the fluctuation will tend to taper. If the absolute elasticity of demand equals that of supply, supply will fluctuate at a constant rate indefinitely. If the absolute elasticity of supply is larger than that of demand, the supply-demand fluctuation will fan out and the equilibrium will be unstable. Luckily, the supply-demand fluctuation throughout the world is stable.

But China's situation is peculiar: The supply and demand of agricultural products fluctuate in exactly the opposite way to the general rule worldwide. Table 1 lists the price elasticity of agricultural supply and demand in China in the last 10 years. The absolute value of the elasticity of the lag in supply is larger than the absolute value of the elasticity of demand, the average difference being 0.28. What is more worrisome is that the gap between the two is widening. According to the cobweb theorem, the supply-demand fluctuation will fan out and will diverge with increasing speed. We do not dispute that the numbers in Table 1 are not exact, but there have indeed been many unexplained and puzzling phenomena in the supply and demand of agricultural products in



China in recent years. In China where there is chronic shortage of agricultural goods, we suddenly saw relative surplus in 1984, and before we could catch our breath, thinking that we had solved the grain problem, grain and cotton productions plummeted in 1985 and 1986. Thereafter, we have received conflicting signals that there are shortages, and sometimes surpluses, of pork, eggs, sugar and other agricultural products. Behind these contradictions is the law of the cobweb at work.

**Table 1. A Comparison of the Price Elasticity of Supply and Demand of Agricultural Products in China (in absolute value)**

Year	Elasticity of the Lag in Supply	Demand Elasticity	Difference
1978	0.52	0.33	0.19
1979	0.51	0.37	0.14
1980	0.54	0.35	0.19
1981	0.57	0.35	0.22
1982	0.59	0.33	0.26
1983	0.57	0.31	0.26
1984	0.60	0.30	0.30
1985	0.60	0.30	0.30
1986	0.59	0.28	0.31
1987	0.60	0.28	0.32
Average	0.57	0.29	0.28

In countries that practice market economy, because the buyers and the sellers of agricultural products are independent economic entities, they can adjust their supply and demand according to the price signal, and for this reason, both supply and demand elasticities are fairly high. However, because there are many substitutes for agricultural products and not all agricultural products are daily necessities, adjusting consumption is much easier than adjusting production, and therefore the supply elasticity is much lower than the demand elasticity, and although supply and demand may fluctuate, it is a tapering-kind of fluctuation. In an economy that practices mandatory planning, the supply and demand of agricultural products are planned. Neither the sellers nor the buyers are independent economic entities. They do not respond much to price changes. Particularly for the supply of agricultural products, because production is arranged by mandatory planning, there is almost zero response to price changes. Generally, demand far exceeds supply, and therefore there is never an excess supply problem. Since the restructuring of the economic system, market mechanisms have been brought into the supply and demand of agricultural products in China, creating a "dual-track" purchasing and marketing system. As suppliers, the peasants have learned to rely on the price signal to adjust their production and consumption decisions, and they have become more sensitive to price changes. This is a natural tendency as the commodity economy develops. However, so far as demand is concerned, the commerce department's purchases make

up a large part of the total demand, and this chunk of demand changes in the same direction as prices, that is, when agricultural prices go up, the demand also goes up. This is exactly opposite to the law that regulates demand and prices in the commodity economy. It offsets the negative response to price change of enterprises and the urban and rural population that make direct purchases and reduces the absolute value of the elasticity of demand for agricultural products. Moreover, enterprises' and the urban and rural population's demand for agricultural products has become much more inelastic in recent years. For enterprises, this is mainly because the price scissors between industrial agricultural products have widened again in recent years, and for the population, the inelastic demand is due mainly to higher income.

In short, because of the restructuring of the economic system in the rural areas, the supply elasticity of agricultural products has increased; meanwhile, because of the unique mechanism of the "dual-track system," demand has been fairly inelastic and is becoming even more so lately. As a result, the supply elasticity is larger than the demand elasticity, creating a rare kind of cobweb-shaped divergence. Of course, the above-described phenomenon has just occurred; the difference between supply and demand elasticities is small. In addition, ours is but an overall analysis. If we look at a specific product, the supply-demand fluctuation may fan out, or it may taper. But the important thing is that we must pay ample attention to what has already happened.

## II. The Effect of Agricultural Prices and Real Agricultural Output on Economic Development

Economic development includes two things: One, it refers to overall quantitative growth; two, it also refers to improvement in the economic structure. These two elements may be separate, that is, there may be overall growth but in a structurally unbalanced way, and structural improvement is also possible with zero growth. And yet the two are an integral part of each other: One, pure quantitative growth without structural improvement at most is low-quality, unstable growth. Long-term, healthy growth of the national economy must be founded on the improvement of the economic structure. Two, ultimately, a coordinated economic structure is meaningful only if there is overall growth. Therefore, if the economic structure is unbalanced to begin with, improving the economic structure is the prerequisite to initial and to further quantitative growth in the short-run. In the long-run, however, structural improvement is the means to bring about quantitative growth. Unbalanced structure has long been the major obstacle to China's economic growth. Rapid quantitative growth in the last few years was only the result of unnatural expansion of the processing industry. The basic industrial sectors have been tightly "stretched" and have become the bottleneck that restrict growth. For this reason, if we look at China's current situation, it is necessary and urgent that we improve the economic structure and ease the bottleneck situation if we want to

achieve long-term quantitative growth. As one that shares society's division of labor, if the ordinary industrial sector increases output, it will increase the relating sectors' input or even output and will lead to overall growth. As the bottleneck sector, if it increases output, it will give direct relief to the bottleneck situation and will generate surplus-production capability and will make possible overall quantitative growth within a short period of time. We call this the "bottleneck-easing effect."

The agricultural sector is obviously a bottleneck sector. First, the output value of agricultural products used as inputs in the industrial sector accounts for 30 percent of the value of industrial output. The agricultural and non-agricultural sectors cooperate very closely in the division of labor. Second, real agricultural output increased 68 percent between 1978 and 1987, but real non-agricultural output increased 174 percent during the same period. Agriculture's lack of productive capacity is a serious concern. Third, excess agricultural demand is an undisputed fact. The various "raw material wars" in recent years are the clear proof. There is no doubt in our minds that agriculture is one of the key bottleneck sectors blocking China's economic growth.

Using regression analysis, we have calculated the nominal and real values of agriculture's relative contribution to the marginal national income to be 24.5 percent and 36.0 percent, respectively, and the corresponding relative contributions of the nonagricultural sector are 75.5 percent and 64 percent, respectively. From these figures, we can draw two conclusions. One, there is a significant difference between the monetary value and the real value of contribution of agricultural output to the marginal national income. This signifies an unreasonable price ratio between agricultural and nonagricultural products; the former prices are too low. Two, in terms of the real agricultural output as a percentage of the total output (the 10-year average is 26.6 percent) an increase in agricultural production contributes significantly, as

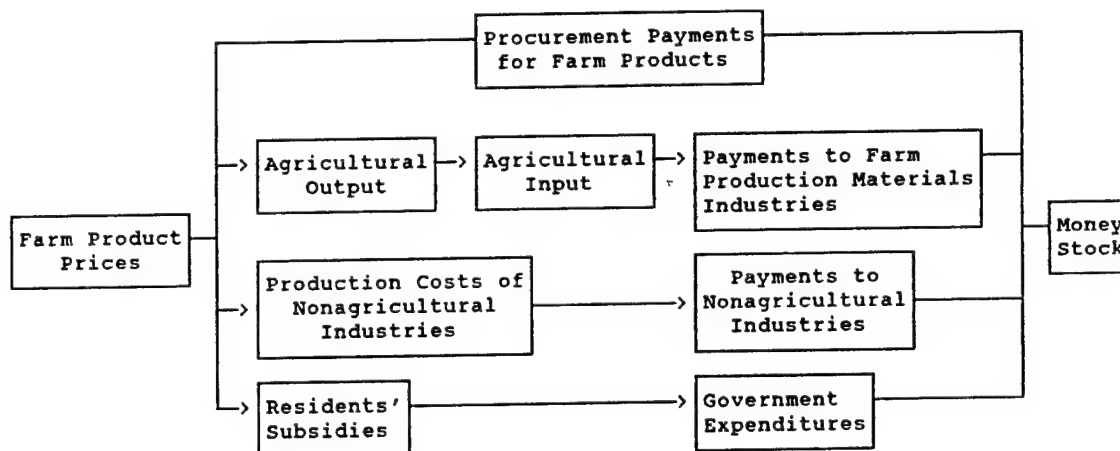
much as 36 percent, to the increase in the real national income. This means that if agricultural production increases, its "bottleneck-easing effect" must be substantial. The above conclusions are in fact interrelated. It is because agricultural prices are too low that the real contribution of agriculture's nominal output has been artificially depressed. Thus the effect of higher agricultural prices on economic growth is obvious: An increase in prices will stimulate agricultural production which will increase the national income. But more important is that the higher prices which lead to an increase in agricultural output will increase the national income through the "bottleneck-easing effect," which would lead to further increases in the gross national income. It has been calculated that the 10-year average elasticity of the real national income as a function of agricultural prices is 0.10.

Thus, higher agricultural product prices leads to increased real output which triggers an increase in the real national income, and it is this relay mechanism that stimulates economic growth. But the significance of this triggering effect lies mainly in that an increase in agricultural prices can effectively increase real output and ease the agricultural sector's bottleneck by unleashing the "bottleneck-easing effect" to achieve the goals of improving the economic structure and guaranteeing sustained quantitative growth. Thus, regulating agricultural prices is an important means to promote economic growth.

### III. Effect of Agricultural Product Prices on Stock of Money

The theoretical effect of higher agricultural product prices is illustrated by the following diagram:

Model calculations show that if agricultural prices go up one percent, the agricultural sector's stock of money will go up 1.1946 percent; if real agricultural output increases one percent, the stock of money will increase 1.4393



percent. China's rural areas are undergoing a monetarization process, and it is normal for the above two elasticity values to be larger than one. The effect of a change in agricultural product prices on the agricultural sector's stock of money and on the total stock of money is shown in Table 2.

**Table 2. The Effect of Agricultural Product Prices on the Stock of Money**

Year	A	B	C (in 100 million yuan)
1978	1.10	0.46	2.44
1979	1.60	0.47	2.59
1980	1.52	0.44	2.88
1981	1.59	0.46	3.24
1982	1.71	0.48	3.82
1983	1.77	0.48	4.22
1984	1.60	0.44	5.06
1985	1.68	0.47	5.50
1986	1.61	0.43	5.98
1987	1.68	0.46	6.63
Average	1.66	0.40	4.01

(A and B represent the agricultural price elasticity of the agricultural sector's stock of money and the total stock of money, respectively; C represents the increase in the total stock of money as a result of a unit's increase in agricultural product price. The stock of money refers to the stock of "cash plus demand deposits.")

Thus, raising the price of agricultural products will effectively increase the agricultural sector's stock of money, the average elasticity being 1.66, but its effect on the total stock of money is much smaller, the elasticity is only 0.40. There are two explanations to this: First, the agricultural sector's share of the stock of money has been decreasing in the last 10 years (from 31.1 percent in 1978 to 26.6 percent in 1987) which to some extent reduces its impact on the total stock of money. Second, the models have not taken into consideration the effect of the change in agricultural prices on non-agricultural economic activities which also affect the total stock of money, and this understates the effect of the change in agricultural prices on the total stock of money. Overall, the elasticity figures accurately reflect the real situation.

#### IV. The Effect of Agricultural Product Prices on the Overall Price Level

As described in the previous section, an increase in agricultural prices can lead to a change in the total stock of money, and the latter will generate a velocity of money which, through a certain relay mechanism, will trigger a change in the overall price level. The models show that the index of the average decrease in national income, P; the national retail price index, PL; and the cost of living index, PZ, are closely related to the stock of money. What is worth noting is that the model shows that the velocity of money affects the price level immediately, with a very short time-lag. A change in the money supply

in the current year affects the price level in that year. Moreover, how much the stock of money affects the price level depends, in descending order, on PZ, PL and P. It is our opinion that this is normal and is also worth paying attention to. First, an increase in the stock of money is manifested by an increase in the economic entities' purchasing power, which increases demand. In response, the producers will first adjust their stock of goods, and immediately thereafter, they will adjust their productive capacity. But there is very little room for maneuvering to make these two quantitative adjustments in a resource-constrained economy like China's. Therefore, an increase in the stock of money will necessarily cause an increase in prices. Since reform, the authority to set prices has been handed down to the lower levels. Even if the central government wants to limit the scope of price change, prices under local governments' and enterprises' control will change and approximate the uncontrolled market prices. This will definitely shorten the relay time when the velocity of money begins to affect the price level. Furthermore, market prices negotiated prices which approximate market prices have been playing an increasingly larger role since reform, and this has also speeded up the relay process between the money supply and the overall price level. Our study shows that this relay time has been shortened to less than a year, or within several quarters. The shorter relay between the money supply and the overall price level no doubt signifies that China's market economy is making progress, but it is also more demanding of our macroeconomic management. We should be aware of this when we formulate new monetary policies in the future.

An increase in agricultural product prices leads to the increase in real agricultural production and increases the gross economic output through the "bottleneck-easing effect," and although this tends to drive up the stock of money, on the average, its effect on the price indices is only nominal. However, this impact has been increasing in recent years. In particular, the elasticity of the cost of living index has reached 0.19 by 1987, averaging 0.11 [over a 10-year period]. Although these figures may not seem high, they are statistically significant (see Table 3.)

**Table 3. Agricultural Product Price Elasticity of Various Overall Price Indices**

Year	$\eta_P$	$\eta_{PL}$	$\eta_{PZ}$
1978	0.03	0.03	0.04
1979	0.03	0.06	0.07
1980	0.05	0.06	0.08
1981	0.07	0.07	0.09
1982	0.08	0.09	0.11
1983	0.10	0.10	0.12
1984	0.11	0.12	0.15
1985	0.12	0.13	0.15
1986	0.13	0.14	0.17

**Table 3. Agricultural Product Price Elasticity of Various Overall Price Indices (Continued)**

Year	$\eta p$	$\eta pL$	$\eta pz$
1987	0.16	0.16	0.19
Average	0.09	0.09	0.11

(Note:  $\eta p$ ,  $\eta pL$ , and  $\eta pz$  represents the agricultural product price elasticity of the index of the average decrease in national income, the national retail price index, and the cost of living index, respectively.)

Thus, it is clear that agricultural product prices are one of the important variables that affect the urban and rural population's living standard. Of course, this coincides with the unpleasant reality of the smaller Engel's coefficient in recent years. From the perspective of economic development, it stands to reason that the effect of agricultural prices on the overall price level will gradually diminish.

#### V. The Effect of Agricultural Product Prices on Inflation

China's inflation rate has been rising in recent years; we have been on the verge of runaway inflation in some years. It has caught the attention of many people. Based on the sequence of agricultural price increase first and inflation later, people often blame inflation on higher agricultural prices, believing that the increase in agricultural prices has caused inflation in recent years. We think that this deserves an in-depth analysis.

As discussed earlier, an increase in agricultural prices can spur the increase in the stock of money; this has the tendency to increase the rate of inflation. But an increase in agricultural prices also stimulates the increase in agricultural production for commercial sale and can ease the constraint the agricultural sector imposes on the other sectors; it improves the economic structure and promotes and guarantees sustained overall quantitative economic growth through the "bottleneck-easing effect." Thus, when agricultural prices go up, more currency will be issued, but this is accompanied by more commercial goods, and therefore it should not lead to inflation. We call this kind of increase in currency issuance which is accompanied by a sufficient amount of commodities "self-compensating currency issuance." Furthermore, an increase in agricultural product prices also affects the monetarization process. The output-related contract management responsibility system launched in 1979 and the subsequent increase in agricultural prices aroused a tremendous sense of commercialization among the peasants and stimulated production. Both the scope and the quantity of agricultural products transacted in monetary form have increased; more parties and segments are involved in these transactions. The peasants' cash holding and bank deposits continue to increase. Moreover, because of agriculture's associated effects, an increase in the supply of agricultural products will induce and promote the growth of rural nonagricultural industry and township industry. They also hasten the economy's monetarization process. In short, an increase in agricultural product prices speeds the monetarization

process and absorbs a portion of the newly issued currencies. This tends to lower the rate of inflation. To summarize, although an increase in agricultural product prices can spur the increase in money supply, because it is a "self-compensating currency issuance," there are sufficient goods to back up the new issuance, and because the monetarization process has speeded up, it also absorbs a portion of the new issuance, and therefore there is very little money left to really cause "inflation." The combined effect can be assessed by calculating the elasticity of the inflation rate as a function of agricultural prices. That value was 0.02 in 1979 and averaged 0.01 during the 1980-1987 period.

Thus, although a change in agricultural product prices has a definite effect on the overall price level, its effect on the inflation rate is very small. If agricultural product prices go up 10 percent, the inflation rate will increase only one percent, which is statistically insignificant. The reality of agricultural product price's small "contribution" to inflation is attributable to its impact on the real increase in the national income and to its promotion of the monetarization process which far exceed its effect on raising the overall price level.

What is more important is the effect of higher agricultural prices on the non-agricultural production cost. Due to chronic inefficiency and their failure to establish a mechanism to enable them to take responsibility for their profits and losses, enterprises must shift the higher cost caused by higher agricultural prices to the consumers or to the government, which creates an upward price spiral between agricultural and industrial products, leading to inflation. When this happens, we cannot blame inflation on agricultural product prices just because they went up first. Under the circumstances, rather than blaming inflation on higher agricultural product prices, we should consider the latter the consequence of the former condition.

#### VI. The Effect on Agricultural Product Prices on Government Subsidies

The government's price subsidy to help urban and rural population buy agricultural products is comparable to a "reservoir" between agricultural product prices and the people. It absorbs part of the flood of direct impact higher agricultural prices has on the people's lives and protects the welfare of the urban and rural population and reduces the social shock. But so far, this "reservoir" can only "hold" but cannot "release" [water], which creates a heavy financial burden for the government.

The amount of price subsidy is determined by the inverse relationship between purchase and sales, that is, by the ratio between the government's purchase price and the price the state-run commerce department charges in its sale of agricultural products and by the actual amount of goods purchased by the commerce department. Calculations using regression indicate that the elasticity of price subsidies relative to the ratio of agricultural product purchase price to sale price is as high as 5.4501, and the elasticity relative to the amount of agricultural products purchased by the commerce department is 1.7466. Both values are greater than one,



which indicate that if there is a quantitative increase in either of these, government price subsidies will increase even more. For more quantitative observations, we have calculated separately the elasticity of price subsidy as a function of the government's agricultural purchase price. The value for each year from 1978 to 1986 is 5.9, 6.7, 4.9, 4.8, 4.9, 6.0, 6.0, 4.9, 6.2, respectively.

Between 1978 and 1986, for every one percent increase in the agricultural product purchase price, the government's price subsidy increased an average of 5.2 percent. Such high elasticity value is normal. Assume that the commerce department's stock of agricultural products remains the same, the amount of government price subsidy can be expressed simply as  $S = (P_1 - P_2)Q$ , where  $P_1$  and  $P_2$  represent the purchase and sale prices of agricultural products, respectively, and  $Q$  represents the amount of the commerce department's purchase or sales. The agricultural product purchase price affects the price subsidy in two ways: First, higher purchase price directly widens the gap between purchase and sale prices and increases the price subsidy; second, higher purchase price stimulates the supply of agricultural products, and to protect the peasants' interests, the commerce department often increases its purchase. This conclusion reminds us to be aware of the fact that under the present system, an increase in agricultural product prices will create a heavy financial burden for the government.

#### VII. The Choice of Agricultural Product Price Policies

There are several possibilities when choosing an agricultural product price policy, but the present "dual-track" purchase and sale price system is not a good choice, nor are we equipped to decontrol the purchase and sale prices completely, and neither can we go back to the old state monopoly of purchase and sales. For this reason, we suggest, for the sake of discussion, the implementation of a land rent or land tax system.

The land rent or land tax system consists of the following: (a) different rents or tax rates based on the different grades of land; (b) the government collects rent or land tax from the person who works the land; (c) the government spends a portion of the rent or tax on subsidizing the urban and rural population's basic agricultural needs; (d) while those who work the land must pay rent or tax, they can sell all of their surplus goods at the market price; (e) subletting of land should be permitted to encourage large-scale operations and the transfer of land to the farming experts. This will lower the marginal cost of agricultural production and improve efficiency in land-use. *(In China, the land which the peasant households have contracted to work on belongs to the peasant collectives. How can the government collect rent from the peasants who work the land? Under the current peasant household contract management responsibility system, it is stipulated in the contracts that those who work the land have the right of possession and use of the land, and they can transfer, with or without compensation, the responsibility they have contracted to someone else, but they have no right to sublet the land. The*

*suggestion here obviously contradicts the current land system, and the authors did not explain how this conflict can be reconciled. As for using some of the rent or tax money on subsidizing the people's basic agricultural needs, it is something worth looking into. The editor.)*

The fact of the matter is, the fixed-quota purchase contract system is very similar to requiring the peasants to pay rent or tax in an amount equal to the difference between the market price and the contracted purchase price times the quantity of the contracted purchase. Under a land rent or land tax system, the peasants pay a fixed rent or tax and thereafter can sell the rest of their output at the market price which is above their marginal cost, and they will increase output and sales until the market price equals the marginal cost. This makes more sense than the fixed-quota purchase contract system. Because the tax rate or land rent is established by law, it also adds a sense of seriousness and stability. Meanwhile, because rent or tax is collected on every piece of land and because land is transferable, the peasants will not neglect the land or let it sit idle. This facilitates the transfer of land into the hands of farming experts, laying the groundwork for large-scale operations. In addition, by collecting land rent or land tax, the government's income will increase. Some of the money can be spent on price subsidies; the rest can be used on agriculture investments. They can reduce the government's financial burden.

In our proposed plan, we can abolish the agricultural price subsidy when conditions ripen in the future. We have analyzed earlier that the agricultural product supply-demand fluctuation tends to fan out mainly because of the inelastic demand for agricultural products. This is caused by several factors, [but] it is primarily because of the positive price elasticity of the commerce department's purchase demand. When conditions ripen and the purchase and sale prices are completely decontrolled, we can put an end to the commerce department's interventions. By then, the government will be utilizing its fiscal and monetary policies to regulate the supply and demand of agricultural products, and the commerce department can still play a positive role, but its regulatory measures should comply with the law of commodity economy. Moreover, because its purchase demand will comply with the behavioral law of demand for commercial goods, the price elasticity of demand will increase, and as other economic entities regulate their own behavior, the supply and demand of agricultural products will gradually stabilize.

#### Article Views Contract System in Henan

HK2407002690 Beijing RENMIN RIBAO in Chinese  
13 Jul 90 p 5

[Article by Cheng Weigao (4453 4850 7559): "Survey and Thoughts on the Two-Way Contract System in Agriculture"]

[Text] Henan is a major agricultural province. The agricultural production situation has a significant

bearing on the province's sustained, stable and harmonious economic development. If agriculture does not develop, it is hard to maintain a stable rural situation and it is also hard to maintain overall social stability. In order to raise agricultural production to a new stage and to ensure its sustained, stable, and harmonious development, more than 80 counties (cities) in the whole province have, to various degrees, adopted the two-way contract responsibility system in agriculture. What results has this result achieved? Recently, I went to the countryside to make a fact-finding tour. According to the situation in the places I visited, the masses generally welcomed the two-way contract system. Many people said: "This is a good method. After it was adopted, the departments concerned attended to the difficulties we encountered in our production. So long as the government supports us and shows concern for us in this way, we will certainly do a good job in developing agricultural production."

The adoption of the output contract responsibility system in the countryside aroused peasants' production enthusiasm and promoted the development of agricultural production. However, many production links could not be properly handled by the peasant households in their independent operation. For example, socialized services were urgently needed in the aspects of the supply of improved seeds, chemical fertilizer, pesticide, diesel oil, and other production materials, the sale of farm products, the provision of technical guidance, and the management and coordination of the use of water and electricity. In order to properly solve these issues, Jiaozuo City and Zhengzhou City in Henan introduced the two-way contract responsibility system on a trial basis in 1988 through bringing the unified management function of the rural collective economic organizations into play. Contracts on various items in agricultural production were signed between city, county, township, village, and household in light of the local conditions. Tasks and targets were thus fixed for each level. According to the contracts, the upper level ensured the supply of various agricultural production materials, funds, and technical services; and the lower level ensured the fulfillment of the growing area, the output of crops, the sale of products to the state, and other economic targets. The governments at various levels assigned the specific service items to the functional departments concerned according to the target management responsibility system. Awards and penalties were given to the departments concerned according to their work results, thus ensuring that the responsibilities, rights, and interests of both contracted sides were guaranteed. The two-way contract system not only required peasants and rural villages to fulfill certain tasks, but also stipulated what specific services that the village-level collective organizations and the government departments at various levels should provide for peasants. That is, the two-way contract system not only stipulated the quantitative standards for the production tasks for the peasants and the contributions they should make, but also fixed explicit service duties for various government departments at various levels and the collective economic organizations. This system properly coordinated the

input of the intellectual (scientific and technological), financial, material, and human resources, promoted the improvement of the double-level rural management and operation system, and gave an impetus to agricultural development. In 1989, after the adoption of the two-way contract responsibility system was adopted in all counties and districts of Jiaozuo City where the economic foundation was comparatively good, the per mu wheat output reached 340 kg or increased by 17.6 percent over the previous year. In Nanyang Prefecture where the economic foundation was comparatively weak, as the existing material and technical conditions were fully used and the two-way contracts were concluded for 930,000 mu of high-yield fields planted with corn, and the per mu yield for the first time exceeded 400 kg. In Miyang County which was facing difficult economic conditions, contracted technical services and improved seeds were provided to local peasants, and the per mu corn output in the whole county increased by 75 kg.

According to the practice of implementing the two-way contract responsibility system in agricultural production in these localities, I found that its significance was not limited to the trial implementation of a concrete system but also lay in a series of noteworthy questions in pursuing the double-level management and operation system in the rural economy with unified collective management being combined with separate household operation. Various localities were required to seek feasible ways to solve the following questions according to their concrete conditions:

It is necessary to continue to stabilize, improve, and develop the double-level management and operation system in the rural cooperative economic organization.

The present output contract responsibility system in the countryside includes two levels, namely, household operation and unified collective management. The two levels have their own special characteristics and cannot replace each other; at the same time, the two sides are also inseparable in an organic entity. If the role of any one side is neglected, the whole management and operation system will not be able to achieve its full effect. At present, something at both levels needs to be further improved, but in general, household operation has aroused initiative better than the performance of the unified management functions of the collective economic organizations. Many factors impede the unified management functions of the collective organizations from being properly performed, but the key factor is the weakness of the collective economies in some localities. As a result, the collective organizations have no strength to provide effective services even though they intend to do so. Therefore, attention must be paid to gradually strengthening the collective economies and continuously building up the unified management capacity of the collective economic organizations. The growth of the collective economies needs to undergo a process of accumulation, so we should not act with undue haste. The collective accumulation should be increased through increasing production and through running collective

enterprises, organizing production in new fields, contracting land on a compensatory basis, or setting up accumulation fields according to local conditions. The collective economies must not be expanded at the expense of the household economies. Improving the double-level rural management and operation system according to the actual conditions should be taken as a basic project in promoting agricultural development. In the previous few years, we fully aroused the initiative of household operation through the adoption of the output contract responsibility system; at present, we shall really bring the role of both levels in the double-level management and operation system into full play. This will achieve more obvious results in ensuring the sustained, stable, and harmonious agricultural development.

It is necessary to give full play to the role of various service organizations, thus linking the separate production and operation of the peasant households with the state plan and with the domestic and overseas markets.

With the gradual development of the planned commodity economy, relations between agriculture and other industries have become closer, and peasants are also more and more reliant on socialized services. Peasants not only need technical guidance for tilling the fields, sowing seeds, reaping crops, protecting the plants, and irrigating land; but also need more and better services in the supply of pesticide, chemical fertilizer, diesel oil, and improved seeds. Moreover, they also require information, credit, processing, transport, and storage services and facilities to support their production. Such requirements of the peasants are not only related to various rural cooperative economic organizations, but also related to the government's economic and technical departments concerned at various levels. If services in any link fail to keep pace with the needs, the normal operation of the rural economy will be affected and agricultural development will be constrained. While facing such requirements of the peasants, we must organize and mobilize all social forces to jointly provide good services for agriculture. In Henan, aside from actually improving the division of work and self-service inside the cooperative economic organizations in townships and villages, it is also necessary to improve the state services and the social services.

The so-called state services refer to the work of service organizations set up by the state at various levels, including the service stations of all kinds at the township level and the services provided for agriculture by the economic and technical departments at and above the county level. These units are set up and run by the state for the purpose of guiding and supporting agricultural development, and they will play a major role in promoting and regulating agricultural production. The business activities of these units are not only subject to the unified guidance of the state plans, but are also oriented to the broad markets in society. Their effective services also have to be realized through the market. They can thus link the peasants' production and operation with the state plan and with the domestic and overseas markets. At present, the

key to strengthening the service functions of these institutions is to strengthen their economic interest links with peasants and to make them share the same weal and woe with peasants and develop along with agricultural development. Reform should be carried out in some of these institutions, and their operation should be changed from guidance services into a profit-making business operation. Their services for agricultural production which were provided gratis should be changed into services that have to be paid for. Thus, they will introduce the management methods of the profit-making enterprises in the course of providing services and can increase their own accumulation and seek self-development. At the same time, while giving play to the initiative of various professional departments, we also need to pay attention to the coordination of the local governments between various departments in order to ensure the best effects. The specialized services of various departments should be scientifically combined with the comprehensive services of the relevant localities.

The so-called social services refer to the services mutually provided by all kinds of economic entities, including the state-owned, collective, and new-type nongovernmental economic organizations. Such services are based on the social division of work and are effected in the form of market exchange, and they have the characteristic of being flexible and variable. In particular, a large number of associations, research societies, service stations, purchasing and marketing centers, and other new-type service organizations have emerged in the last few years. The scope of their services is not limited to the local communities and the local areas. They offer services to whoever is willing pay the fees accepted by both sides, and thus effectively play a certain role of market regulation. For example, in some localities, there are cabbage associations or watermelon associations. Last year, when such products were oversupplied on local markets, they actively arranged the long-distance transport of these products to Northeast China and Northern China, thus reducing the economic losses of the vegetable and fruit growers.

It is necessary to gradually establish a set of new agricultural economic operation mechanisms through making explorations.

In this regard, Tangyin County made useful explorations in developing the production of food chicken. This county organized the animal husbandry, feed production, and food processing departments to set up a new company, which help peasants develop their chicken farms through effective coordination. In a period of four years, the number of households specialized in raising chickens increased to more than 2,000; in 1989, they raised more than 4 million chickens. The annual output value of the chicken company reached 110 million yuan, and the company became a major economic pillar of the county. An important point of Tangyin's experience was to effect the integration of chicken raising with product processing and marketing and to set up a new comprehensive service mechanism which linked production with marketing. Inside the company, duties for each

work post were explicitly fixed, and prices and charge standards between different links were also reasonably fixed in order to properly coordinate the economic interests of various departments. The profits made by the feed processing sector and the chicken sales sector could be appropriately shifted to the chicken raising sector. As the individual chicken raising households found their income increased, they had higher enthusiasm for increasing production. In turn, while more chickens were raised, the profits made by the feed and food processing sectors also increased more rapidly. Thus, the economic interests of the three sectors, namely, agriculture, industry, and commerce, were integrated into a whole; and their mutual service and cooperation relations became closer. At present, the peasants only raise chickens at home, and the personnel of the departments concerned regularly deliver feed, purchase mature chickens, and provide veterinary services for the chicken farms. Many links of such specialized production activities in the whole county are organized and coordinated by the collective economic organizations at the township and village levels, and these organizations play a major role in organizing technical and regional cooperation. They relied on the role of such mechanism to combine the interests of all quarters concerned, and their trial of promoting production development through the provision of systematic services showed strong vitality. In the last quarter of 1989, because of the market slump, food chicken was seriously stockpiled, and the food company encountered difficulties in its business. The general company analyzed the situation and studied the countermeasures in good time, and it coordinated relations between various quarters and helped them jointly tide over the difficulties. Through three months' efforts, production, processing, and marketing all basically returned to the normal conditions. The practice of Tangyin County told us that we should be determined to take the road of reform and gradually search and establish a new operation mechanism which is in keeping with the actual conditions in the countryside and is suited to the needs in commodity production in a planned way. Only by gradually establishing such a new mechanism can we ensure the sustained, stable, and harmonious development of agriculture and the rural economy.

It is necessary to promote the development of socialized services by making use of the organizational functions of the government according to the specific conditions in reality.

At present, the management system cannot effectively coordinate the work of various economic and technical units which provide services for agriculture, as they are subordinate to different departments. So it is hard for them to adjust their activities according to the comprehensive needs in agriculture. In addition, the new economic operation mechanism has not taken shape; the

economic strength of the state and the collectives is insufficient; cadres responsible for the agricultural work are still short of experience in guiding the planned commodity economy and organizing effective services for peasant households which are engaged in separate operation. In these circumstances, it is of special and practical significance to rely more on the organizational functions of the governments in promoting the construction of the socialized service system. Governments at all levels should take the work of strengthening the construction of the socialized service system as a major part of their responsibility target management, and should take solid measures for ensuring this work. Cadres in various departments at various levels should also pay attention to studying and solving issues in this regard when they go to the countryside. Of course, it should also be made sure that at present, the use of the administrative means to strengthen various service undertakings in society is different from the previous exercise of certain administrative functions in guiding the rural economic work. First, the objectives are different. At present, the government uses its administrative means to promote the development of the service undertakings in society for the purpose of developing the planned commodity economy; but in the past, the administrative means was used to restrain the development of industry and sideline production. Second, the administrative means was used to control the activities of the lower level and the masses in the past; but it is now used to provide better services for the grass-roots units and the masses. Third, the development prospects are different. In the past, the administrative means was used to exert tight and rigid control over the rural economy, and the government's administrative functions were increasingly strengthened in the economic operation; at present, the administrative measures are aimed at supporting the establishment of a new economic operation mechanism suited to the needs of developing the planned commodity economy. With the improvement of the new operation mechanism, the economy will become more and more vigorous and the administrative functions of the government and its concrete interference in the economic operation will be gradually weakened.

In the process of rural economic development, doing a serious job in the above-mentioned aspects is a major step for strengthening the party's close ties with the masses and concretely implementing the decision of the sixth plenum of the 13th party central committee. The peasant masses represent the main force in agricultural production, and their wishes represent the objective requirements in the development of the rural productive forces. At present, the rural people want to get rich and hope for better services. Therefore, we must be determined to improve socialized services, and this is the key link in promoting agricultural development and maintaining rural stability. If things in this regard are properly handled, then we shall really do a solid thing for tighten relations between the party and the masses and between cadres and the masses.



**Liu Xiaobo Examines National, Western Cultures**  
90CM0294A Hong Kong MING PAO YUE KAN  
[MING PAO MONTHLY] in Chinese No 295, Jul 90  
pp 13-16

[Article by Liu Xiaobo (0491 2556 3134): "Reexamination of a Countertraditionalist—A New York Revelation"; dated May 1989, Beijing]

**[Text] My Countertradition Stand**

In the cultural polemics of recent years, I have taken a stand against traditional culture, and I have always thought that my own theories have attained world standards. The wild arrogance deep in my heart has poisoned my wisdom. It has taken this trip abroad to wake me up.

On the level of making a comparison between China and the West and the desire to improve China's present conditions, my countertradition stand may have some value, because within the limits of the world, China's present conditions and her culture are indeed too old, too ossified, too decrepit, and too corrupt. China needs a menacing kind of stimulant and challenge which only a vigorous, different civilization can produce, and she needs the humiliation of falling behind the times to arouse her determination, her fighting will, and her wisdom to transform herself. She needs the vast and surging sea to set off her lonely island-like isolation and silence, her insignificance, and her weaknesses. As a reference for comparison, Western culture clearly shows up the overall characteristics and the many weaknesses of China's culture. As a yardstick for self-examination, Western culture can be an effective critic of the decrepitation of Chinese culture. As a constructive wisdom, Western culture can give China a transfusion of new blood.

Yet, on the level of human destiny and concern for the world's future and from the high plane of self-fulfillment of individual lives, my countertradition stand is perhaps worthless, because I worry only about the narrow and the superficial. I have always taken the Chinese point of view, and I have concern only for China. I have never looked at things from the view of humanity, nor have I ever worried about the future of the world, and even less have I taken the tragedies of individual existence as the starting point and, rising above my own feelings, worried about the self-fulfillment of each and every life. Therefore, my countertradition stand is only as valuable as the worthless cultural ruins; its inferiority is most obvious in my narrow nationalist stand and my aimless desire to ingratiate myself with Western culture.

**I. "Wholesale Westernization"? National Nihilism?**

Since I began taking part in the cultural debates, I have been accused of advocating "wholesale Westernization" or "national nihilism." But the fact of the matter is, everything I have said or written about Chinese and

Western cultures stems from the position of transforming China's nationalism and not "wholesale Westernization." In my opinion, one of the most important characteristics of Western culture is its tradition of critical reasoning. True "Westernization" is the critical examination not only of Chinese culture but also of Western culture. It is to show concern for the destiny of mankind and for the unfulfillment of individual lives. At the same time, this kind of critical examination is based on a "knowledge for knowledge's sake," extra-utilitarian standpoint. It is the extension of a complete, self-contained intellectual sense of value and mode of thinking; it is definitely not based on utilitarian, pragmatic value. My utilitarian goal of enlisting the aid of Western culture to change China's reality dictates that I am but a typical Chinese selfish departmentalist and not a "Westernization advocate." This kind of China-based nationalist stand has limited my concern for and my thoughts on more profound issues (and I think it has also limited the field of vision of most Chinese intellectuals. The fact that modern China has produced few world-class masters is definitely due to the limitations of this kind of narrow nationalism.) I can neither hold a conversation with global Western culture on the level of the destiny of mankind, nor can I achieve religious transcendence on the level of pure individual self-fulfillment, even less can I resist utilitarian temptations for the sake of seeking pure knowledge. I am too utilitarian, too realistic; I am limited to the backwardness of China's reality and other worldly issues.

**Lu Xun's Tragedies**

This makes me think of Lu Xun. In my view, Lu Xun's tragedies have no transcending value; in other words, his are tragedies of godlessness. His personal experience of the tragedies of life led him from describing outward social sorrow to expressing inward personal sorrow—from "Cry" to "Perplexed." The depth reached by "Weeds" especially is beyond the reach of all of Lu Xun's other works; it is beyond comparison. The Lu Xun who wrote "Weeds" could not be lifted by anything of secular value. He had gone from the sober-minded criticism of China's reality and culture to the examination of himself. Therefore, the deep and heavy ambivalence and dejection expressed in "Weeds" could only be lifted by some transcending value. His hopelessness, the feeling that he had come to the end of the road, that only his grave lay beyond, needed God's guidance. In the absence of an absolute value that transcends all worldly gains, Lu Xun cannot escape from the realm of "Weeds." And so it was in reality. "Weeds" was the culmination of Lu Xun's works; it also was the grave Lu Xun dug for himself. After "Weeds," Lu Xun was never again able to contain the loneliness, solitude, and hopelessness in his heart; he could no longer bear the desperate uncertainty. He finally ended the struggle in his heart, but he did not go toward that which transcended all things; instead, he fell back into vulgar reality and engaged in an equally vulgar war of words with a bunch of mediocre writers who could not come close to being his match. Those who

tangle with mediocrity will themselves become mediocre. To put it differently, when Lu Xun rose above China's reality and culture through criticism, he found himself alone. He could not bear facing the unknown world by himself, nor could he stand the loneliness and fear as he faced his grave. He did not want to have a dialogue with his own heart under God's watchful eyes. The utilitarian character of traditional scholars was resurrected in Lu Xun. Without transcending value, Lu Xun could only sink into moral decay. Lu Xun loved to "tangle with darkness" in the dark, but he could not rise above darkness. Lu Xun was deeply influenced by Nietzsche, but the biggest difference between him and Nietzsche was that after Nietzsche gave up hope in mankind, in Western culture, and in himself, he was able to draw on the support of an "superman" who transcended all things as he rose above individual human life. When Lu Xun lost all hope in the Chinese people, in Chinese culture, and in himself, he could find nothing of transcending value for his reference point, so he returned to the reality he utterly despised.

### Chinese Intellectuals' Field of Vision

This makes me wonder why most West European as well as Soviet and East European countries have produced many prominent writers in exile, but not China. Why do most well-known Chinese intellectuals fail to accomplish much once they go into exile? Aside from the language barrier, I think the main reason is that most Chinese intellectuals have a very narrow field of vision; they think only of China; their thoughts are too utilitarian; they worry only about value in realistic terms. Absent in the lives of Chinese intellectuals are a transcendent impulse, a fighting spirit that pitches oneself against the whole society, the resilience to withstand solitude, and the courage and desire to face the strange, unknown world. China's intellectuals can survive only in the land they are familiar with, in the land where they stand out and are applauded by the benighted. The famous ones in particular find it difficult to give up their fame in China to go to a strange land to start over again from scratch. This is an inescapable Chinese feeling. The most striking characteristic of this feeling is the absence of true individuality. It is exactly this feeling that made China's famous intellectuals hold on to their nationalism. They do not want to face their true selves, nor do they live for a down-to-earth kind of self-fulfillment. Instead, they seek the fame bestowed on them by the benighted, and they live for the good feeling from the illusion that they are saviors of the world. In China, every move and every sound they make attract the whole society's attention. Abroad, they are on their own. They will not be looked up to by admirers. Except for the kindness of a few foreigners who are concerned about China, nobody will salute them. It takes not society's collective strength but personal strength and the talent, wisdom, and creativity of the individual to endure this kind of loneliness which is devoid of applauses and flowers. Thus, no matter how famous, how high ranking a person is in China, once he

finds himself in a strange world, he must open a dialogue with society as a real individual being.

### Sudden Realization of My Own Weaknesses

It is for these reasons that no matter how wholeheartedly I praise Western culture and vigorously criticize Chinese culture, I am still like a frog in a well; all I can see is but a patch of blue sky the size of my palm. Theoretically, it does not take great wisdom to examine and criticize China's reality and tradition; it does not even require creativity. Because all the theoretical references I have used to examine China are existing, known theories, I need no new discovery of my own. Theories regarded by China's intellectual circles as profound or novel have all been thoroughly discussed by Westerners and have been talked about for several hundred years and have become old and obsolete in the West. They do not need my superfluous exposition. If I can just grasp these theories accurately and profoundly, I will be doing well. When I walked into New York's Metropolitan Museum and the Museum of Modern Art, it suddenly dawned on me that, on the level of spiritual creation, all the issues I once took pride in discussing were quite meaningless. Faced with a different world, I have become an utter failure. I have holed up in an ignorant world, a desert-like culture, for too long, and my thoughts have become shallow; my life has withered away. Eyes that are used to the dark and have never seen light cannot adjust if the skylight should suddenly open. When New York stripped away the illusory, outward decorations and fame I had in China, I suddenly realized my own weaknesses. I cannot change overnight into a man who dares to face his own realistic self, even less can I hold a high-level conversation with the world any time soon. This failure is so real, so cruel, that it far outstrips the kind of phony success I once enjoyed in China.

### II. A Criticism of Chinese Culture

It was exactly because of my narrow nationalist stand and my attempt to enlist help from Western culture to improve China that my criticism of Chinese culture had been predicated upon the absolute idealization of Western culture. I neglected or deliberately avoided the many weaknesses of Western culture, even those I was conscious or aware of. Thus, I could not stand on high ground and critically examine Western culture or attack humanity's weaknesses. I could only ingratiate myself with Western culture—relying on exaggeration to beautify Western culture, as if Western culture were not only China's salvation but where all mankind ultimately belonged. Taking this a step further, embellishing Western culture basically was beautifying myself. I drew support from this kind of illusory idealism to make myself out to be the savior of the world. Although I have always found the Savior repugnant, that is just because He is somebody else. When it comes to myself, I have consciously or subconsciously let myself live this disgusting role and have relished the savior-like, all-benevolent, all-ambitious role.

I know that Western culture can only be used to transform China today and that it cannot redeem mankind tomorrow. At the supernal height, the weaknesses of Western culture exactly reflect mankind's innate inadequacies. This reminds me of Zhuang Zi's *Autumn Waters*. He said, no matter how wide the river, it is nothing compared to the ocean; no matter how vast the ocean, it is nothing compared to the universe. The confidence to "declare oneself to be the best in the universe" is but a fantasy. Analogously, China is backward compared to the West, the West is limited compared to mankind, and mankind is nothing compared to the universe. The supercilious arrogance unique to human beings is not only visible in the Chinese-style complacency in our moral integrity and A Q spirit but can also be seen in the Westerner's belief in the omnipotence of reason and the supremacy of science. No matter how much the Westerners criticize in earnest their own rationalism, and no matter how sternly the Western intellectuals refute their own colonialism and the superiority of the white race, when Westerners are among people of other nationalities, they still think that they are inherently superior. They are intoxicated with their own courage and sincerity in conducting self-criticism. Westerners will calmly and even proudly accept their own criticism of themselves, but they cannot and will not tolerate criticism from non-Westerners. They are unwilling to acknowledge that rational criticism of rationalism is but a self-deceiving and deceitful exercise. Yet, who can come up with a better weapon to dispense criticism?

As a man who has lived in China for more than 30 years, if I want to examine mankind and myself from the high plane of human destiny and self-fulfillment of the pure individual, I must dispense two kinds of criticism: 1) Criticize China's reality and culture with reference to Western culture. 2) Criticize Western culture using my own, my individual, creativity. The two kinds of criticism are not interchangeable, nor can they be mixed. I can criticize Western culture because it holds reason, science, and money above everything else, thus causing individual lives to wither. I can criticize the hierarchy of global economies and the lack of resistance because of the total integration and commercialization of technologies. I can criticize the sickness of wealth which is without suspicious impulses and the cowardice of avoiding freedom caused by a lifestyle of excess consumption. But none of these criticisms of Western culture is valid in China, because the Chinese' sense of reason, their scientific spirit, and their sense of money are still in the embryonic stage. The Chinese are still living in the dual predicament of poverty and lack of freedom. Therefore, the materials I use to criticize Western culture cannot be used in China, even less can we use Chinese culture as basis to criticize Western culture. In the former case, it will be pointless criticism; in the latter case (using Chinese culture as basis for criticizing Western culture,) it will only set back the whole human civilization. Some Westerners are dissatisfied with their own culture and reality and have turned

to the East, hoping to find the solutions to all human problems in Eastern culture. This is but blind, presumptuous, wishful lunacy. Chinese culture is helpless in the face of its own regional crisis. How can it solve mankind's problems, especially the problems of the much more advanced West?

#### Unable To Escape From the Predicament

To me, one of the biggest mistakes mankind has made in the 20th century is to try to enlist the aid of existing civilization which man has created to get himself out of his predicament. Whether we are talking about the existing Eastern culture or the existing Western culture, there is no elixir that can remedy humanity's troubles. The superiority of Western culture can at most bring the backward Eastern culture into a modernized lifestyle, but even the modern lifestyle is full of tragedies. So far, man does not have the ability to create a brand-new civilization to solve such problems as population explosion, energy crisis, imbalanced ecosystem, and nuclear buildup, even less a civilization that can help mankind eliminate once and for all all the spiritual sufferings and innate limitations. When man faces the kind of weapon that can bring destruction in an instant, he cannot help but be anxious. Such anxiety will always be in the background of modern human existence, and there will be no escape from it. Death, the final boundary line, can turn all of man's efforts into futile efforts. If one is able to look squarely at this cruel reality and at the same time dares to step into the abyss, one has already reached the limits of humanity.

Since the time men were driven from the Garden of Eden, they have been drifting, without a place to call home. This exile will never end. Western culture is not home; it is but the journey. The sad thing is, the idea of "original sin" in Western culture is fading; the idea of repentance has grown feeble. The sanctity and purity of religion, like some rock-and-roll music, is just entertainment and not painful self-examination. Since Jesus' crucifixion, no one has sacrificed himself. Mankind has lost its conscience. As the idea of "original sin" dims, people feel light-headed, and this no doubt has caused their moral decay. This is the modern extension of the fall of Adam and Eve. How can those who are without "original sin" hear the voice of God? In the early Middle Ages, God was reason itself; in the late Middle Ages, God was power; in recent times, God was radically humanized, and today, God is gradually being secularized and commercialized. Human civilization is morally corrupt, because with his own hands man has killed everything that is of transcending value and sacred in his own heart. Does equating God with reason, or power, or humanity make mankind more progressive or morally degenerate? If we are degenerating, then God is dead, and does man's degeneration mean anything any more?

#### An Ordinary Man Who Must Start From Zero

Thus, upon enlisting the aid of Western culture to conduct a critical examination of China's culture, I

suddenly found myself lost, trapped in an awkward predicament where I could neither go forward nor retreat. I abruptly realized that I had been using obsolete weapons to criticize an even more antiquated culture, like a semi-invalid laughing at a total invalid. When I find myself in a truly open world, I suddenly discover that I am not a theoretician, nor am I famous. I am but an ordinary man who must start from zero. In China, the background of ignorance set off my wisdom, the inhuman cowardness showed up my courage, and other's congenital dementia made me look healthy. In the United States, once the background of ignorance fades, I am no longer wise; once the weakness disappears, I become a sick man inflicted with all kinds of diseases; once the timidity is gone, I become a coward, afraid to face myself. In China, I lived for undeserved fame which was 90 percent diluted anyway; in the West, for the first time, I face what real life has to offer and the harsh choice before me. Only when one falls suddenly from the height of illusory glory to the depth of reality will one discover that one has never reached great heights but has always struggled in the abyss. My wife, Tao Li [7118 0500], wrote me a letter once in which she said, "Xiaobo, on the surface, you are society's infamous rebellious son, but in reality, there is a deep understanding between you and society. Society takes a negative attitude toward you but still tolerates you, forgives you, attracts you, and even encourages you. You are a kind of reversed ornament or decoration to society." When I first read this, I was not moved. Now when I think back, it really hit the nail on the head. I want to thank Tao Li. She is not merely my wife but my sharpest critic. Before her criticism, I can find no place to hide.

I have no route of retreat. I can either jump off a cliff or have my bones smashed to pieces. But if I want to be truthful, I must face the impasse.

*(Editorial Note: Liu Xiaobo wrote this article before he was taken to prison last June. Subtitles have been added by the editor.)*

### Openness to World Cultures Advocated

90CM0195A Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 4, 15 Apr 90 pp 42-46

[Article by Li Yongsheng (2621 3057 0524), Xian Jiaotong University: "Sino-Western Cultural Exchange and the Development of Traditional Chinese Culture"]

[Text] China's path to modernization has been an extremely difficult and painful one. The course has been problematic for the reason that it has not followed the natural path of China's history, but rather it has represented a stoppage or alteration in the natural course of Chinese history. This historical backdrop of passivity in China's modernization has manifested itself profoundly in the difficulties Chinese culture has faced in modern times. In the history of modern China, the main prelude to Sino-Western cultural exchange was the booming guns of the big imperialist nations. After the guns paved the

way, Western civilization poured into China and our people lost the whole system of cultural values that had infused the citizens of Great China for thousands of years. This undoubtedly caused great pain to the souls of the Chinese people, but bloody and brutal wars actually made this emotional pain even worse. Thus, faced with capitalist culture imports brought in by pirates and colonial invaders, China's feudalists naturally took the firmly rooted culture of the people and mixed it in with the desire to protect the national interests so as to deal with the critical, pressing national crisis and the spiritual wounds of the people that resulted from this crisis. They effectively prevented the people from considering and accepting Western culture and its values, and thus, the people instinctively tried to protect themselves by repressing, hating, and shutting out the Western culture that came accompanied by blood and fire. However, in the final analysis, history is ruthless, and Western culture, this brand-new cultural reference system, actually came to reveal a grim truth to the Chinese people: Our culture had a crack in it. The years have passed and things have changed and today, in this eighth decade of the 20th century, the Chinese people, after having undergone a national catastrophe, have opened their national door on their own initiative and, with an attitude of liberalized culture, are taking up the Western cultural challenge. As a consequence, huge amounts of information, impressions, and cultural values and outlooks are pouring from the outside world into China, a nation that once kept its doors closed in self-defense. However, with the various problems that have come out of liberalized reforms, and the bureaucracy, corruption, environmental pollution, and other abuses in everyday life, the people have gotten something less wonderful than they expected and some have become disillusioned. The people, made insecure and confused about their traditional values by the demands of real-time development, are suddenly discovering that they are still faced with a "cultural fault" that transcends space and time. This is the unresolved cultural problem that has all along perplexed modern China. Philosophy, as a contemplative branch of learning, should not and cannot evade this intensely pressing issue in the course of China's modernization. Resolution of the cultural problems facing China today depends first and foremost on trying to work out and acknowledge a world cultural outlook with a heavy emphasis on being in touch with the times.

### Cultural Exchange and Development

The term "culture" refers to the behavioral styles, organizational structures, and moral standards that mankind creates and comes to know socially, both as individuals and as a group, through the process of transforming nature, society, and man. Also, it encompasses the various social systems, views, knowledge systems, customs and habits, psychological states, and technological and artistic products that result from the above-mentioned processes. Put simply, culture means the theoretical conclusions mankind adopts in its ways of doing things and all of the various products in the quest to understand and transform the world.



If we examine it from the standpoint of cultural ecology, we see that the forms of existence of human culture are multitudinous. Looking at it from the perspective of historic periodicity, we see that the sources and directions of world culture are diverse. For example, Eastern culture has, at its source, Chinese culture, and Western culture is traced back to ancient Greco-Roman culture, and so on. Looking at it from the standpoint of time as a whole, we see that at every point in time world culture takes on an enormous number of faces. The multiplicity of cultural forms are determined not only by temporal cultural changes, but also by the regional and national features of culture. Different peoples, with different geographical environments and styles of existence, will learn from experience utterly different ways of surviving. Out of this are formed different cultural models or cultural worlds. This multiplicity and diversity in the human forms of cultural existence leads to an inherent inevitability of exchanges and fusion between different cultural models whereby common ground is sought and remedies are explored for ones weaknesses. Examining the historical development of human civilization we see that every cultural group starts from a foundation of independent development and then proceeds through human migrations, wars, religion, commerce, trade, and other such forms of contact, to continuously exchange and fuse their cultures, and as a result the path of development for each civilization is at once distinct and connected. Any segment in the history of world civilization is, in fact, the history of exchanges among the various peoples and cultures of the world. Clashes and exchanges between different cultures act as powerful forces in propelling the different cultures toward growth and development. This is a result of the inherent mechanism of cultural development.

According to modern systems theory, any system will interact with and affect its surrounding environment (that is, other systems). And the environment will conduct material, energy, and information exchanges and transformations with a system and this will put restrictions on the existence and development of the system. This can speed up or prolong the course of a system's development, and it can play a major role in determining whether development of a system is realized. Thus, openness becomes a necessary condition for the existence and development of a system. The openness of a cultural system is shown mainly in its ability to engage in energy exchanges with other cultural systems. The result is that the entropy value in our system is lowered through energy exchanges, and we do not get a situation where, because of a rising entropy value inside our cultural system, order gives way to disorder and the system then stagnates or collapses. This function of a cultural system is realized through transmission and exchange of culture.

If we look at it from the standpoint of mechanisms of cultural motion, we see that, generally speaking, there are three mechanisms involved in the prolongation and development of culture. One is vertical cultural transference, or the inheritance of cultural traditions. Another is

horizontal cultural transmission, or cultural exchange. And the third is the creativity of the culture itself, or the way in which the culture recreates itself in actual practice. There is an extremely strong relationship between horizontal transmission (or cultural exchange) and the prolongation and development of a national culture. Each and every national cultural system must possess a set of transmission mechanisms (including both "sending" and "receiving" of culture). A vital, flourishing culture must possess strong mechanisms for sending and receiving culture with methods and abilities to pick up compensatory culture and succeed in spatial expansion and temporal development. On the other hand, if the sending and receiving mechanisms malfunction, that culture will gradually fall into decline.

By looking at the developmental history and practice of the various national cultures of the world, it is easy to understand the active promotional role cultural exchange plays in cultural development. If we make a comprehensive survey of the developmental history of world cultures, we see that the various national cultures of the world have been involved in mutual exchange and merger, and out of this process they have gained enrichment and development through drawing on the experience of the other, offsetting one's weaknesses through application of the strengths of the other, and through pushing the other. Any culture that fails to experience the equalizing merger, intercourse, and reproduction that comes out of conflict, collision, and convergence with another culture will be incapable of achieving the qualitative leap from one plateau to another. This is because, on the one hand, only through cultural collision and merger will two cultures be given the opportunity to exchange and gain supplementation from intercultural energy and information which is a kind of cultural compensation, and in turn, achieve the massive amount of energy that is required for one culture to make a leap forward. And on the other hand, collision and conflict between two cultures provides the historical reference system whereby one culture may achieve self-transcendence, and thus, it goes to make up the historical turning point where introspection and self-transcendence can be performed by one cultural system. A great flourishing of culture happens when qualitatively different cultures collide and out of this collision massive energy is released. Thus, if we hope to see Chinese culture develop, then Chinese culture must display a healthy attitude of openness and tolerance, it must be consciously and actively placed out in the great historical tide of world cultural exchange, and it must soberly and seriously face up to the conflict, collision, exchange, and merger that must occur with other national cultures.

So, what kind of development is there in the interchange of national cultures in the world today? Looking at the overall backdrop of world politics and economics and the international environment, we see that because, in this day and age, communications and transportation are increasingly more developed, the media for highly efficient propagation of information are rapidly being made

available everywhere, and because more and more problems concern all of humanity and require the cooperation of all for their resolution, "global consciousness" is growing increasingly stronger. In the area of culture, we see a gradual tendency for national cultures to increasingly unify or merge. However, looking closely we find that this trend is not happening because people are no longer acting out of self-interest. On the contrary, this is happening because the different nationalities are each looking out for number one first and foremost. Thus, the cultural exchanges we see today are not moving completely toward unity and perfect merger. And of course there is no way that one culture is going to be completely "swallowed up" by another. This is because in today's world modern cultural consciousness embodies a multitude of values. No one culture can resolve the real-life problems of existence encountered by all the peoples of the world. And no single system of cultural values can replace the ability of another culture to independently deal with real-life perils. In fact, if cultural traditions are passed on to the youth, then that culture will not be lost. So, the trend we are seeing today in cultural exchange is this: Positive and useful aspects of other cultures are being absorbed, the essence of world culture as a whole is being assimilated, and the historical perspective is adopted whereby creative transformation of traditional culture can be achieved. And this is the correct path for a developmentally late nation involved in modernization to follow where it is trying to free itself from the cultural predicament brought on by the problematic duality of having both a Western cultural reference system and a native one.

### The Modern Direction of Traditional Chinese Culture

To grasp the development of world culture, we should look at the future development of world culture through the give and take of the strong points of individual national cultures. Thus, when examining the modern development (that is, modernization) of traditional Chinese culture, we must transcend the biased thought of the "Westernizers" and the "China-firsters" and instead base our inquiry on an elevated vision of the great world cultures from which we can scientifically forecast and correctly grasp the modern direction of traditional Chinese culture.

The intense conflict and collision between Chinese and Western cultural values that has accompanied liberalized reforms since the Third Plenary Session of the 11th CPC Congress has brought out in a vivid way the strong contrast between Chinese and Western culture. The renewed flood of certain elements of traditional culture, breaking loose as historical sediment and being carried out in the torrential course of modernization, has created ideological confusion for some people. And the difficulties encountered in the march forward to complete the activities of actual history have led some people to become impulsive—that is, they let the waves of simple emotion substitute for scientific and rational reflection, and, as such, they advocate the wholesale negation of the traditional culture of the people and complete adoption

of Western ways. This emotional and unscientific tendency is both lacking in theoretical basis and is completely at odds with the requirements of reality and of history.

Theoretically, if we are to grasp the modern developmental direction of our traditional national culture, then we must first and foremost resolve the attitudinal problems with respect to our traditional national culture and Western culture. Often many theoreticians overlook this prerequisite when comparing Chinese and Western culture. That is, they ignore the temporal nature of culture. Traditional Chinese culture (which generally refers to Chinese culture as it existed prior to the May 4th Movement) is founded on feudal culture with its patriarchal clan system, which was, in turn, founded on the small peasant economy. However, the Western culture we refer to today is founded on modern capitalist culture growing out of advanced industrialized commodity economies. Because of the historical age disparities, modern capitalist culture is naturally much higher than feudal culture. So, there is no way traditional Chinese culture can contend with the modern capitalist culture of the West.

The cultures of every system of civilization can be compared, and one will find areas of advancement and areas of backwardness. However, at the same time, there are things that cannot be compared or there are sincere, heartfelt areas of uniqueness to a people that are difficult to separate into good and bad (things like the breadth and depth of Chinese culture, the rise and decline of Confucianism, the relative detachment and philosophical attitude of the Taoists toward worldly success and self-interest, the diligence of the Moists and their willingness to sacrifice themselves for the good of all which bordered on religious, and so on). However, some national sentiments or national value systems are extremely complicated. At different periods of historical development, or even at the same time, the value of their historical function is multidimensional. That is, they may produce beneficial historical results and they may also lead to unfortunate, disastrous results. And people living under different historical and societal conditions will be affected by this multidimensionality of tradition in utterly different ways. This increases the complexity and difficulty of understanding traditional culture. Thus, one who exaggerates the greatness of traditional cultural values and one who completely belittles traditional cultural values are both acting on impassioned impulse devoid of reason.

In point of fact, traditional Chinese culture, as the crystallization of the spirit and wisdom of the Chinese people, was once full of vim and vigor. Its strong qualities of affinity and cohesion held together the loyal sons and daughters of the yellow race, and it established a flourishing feudal culture. When we get to modern times, this feudal culture fell behind because of reasons having to do with the times and because of its different social nature. However, traditional culture embodies many details of our national spirit that still possess

positive significance for us as we develop our modern culture. This includes things such as our vigorous sense of self-discipline, our spirit of continually moving forward toward progress, our spirit of "compatibility and adaptability," and our sense of diligence and frugality, among other things. These are the things that make up the spirit and soul of the Chinese people, that same spirit and soul that are driving to move ahead and keep on growing. This is the essence of our culture that we should retain and pass on as we work to develop the Chinese culture.

In addition, when discussing culture we cannot ignore the issue of our legacies. Reality is a continuation of history, modern man is the evolved descendant of traditional man, and a people that denies its own tradition is a people without a future. The Chinese people living today are the real inheritors of Chinese culture. If the denial of tradition becomes common among a nation's people, then it is easy for a kind of national inferiority complex to take form. And then you get attitudes of cynicism and nihilism with respect to the national culture. The spread of this sort of nihilistic trend will destroy the people's subjective awareness of being a nation, it will kill the people's patriotic spirit, and it will dampen the spirits and confidence of the people in their ability to establish a new socialist culture. The harm this brings in real life is enormous, and so this sort of nihilism must be eradicated.

And just how are we to treat Western culture? Modern Western culture is the crystallization of historical experience and wisdom emerging out of modern commodity economies and the development of modern capitalist industry. It is the accumulated value system that has resulted from man's attempts in the history of modern societies and economies to resolve real-life problems. However, Western culture itself is also a complicated system. It contains both good and bad, benign and malevolent. And, it is both the embodiment of man's successful attempts to deal with various problematic aspects of modern environments and is the final product of the various illnesses of Western society. In sum, Western culture is the whole body that has emerged from all of the socio-structural systems of the Western nations as their modern societies have developed, and all of the various aspects of Western civilization are but the refracted product. Thus, there is no way for China to completely import Western culture. This is the inevitable conclusion any reasonable person would have to arrive at. Moreover, in the final analysis, Western culture is an historical experience at complete odds with our own, and it would be impossible to replace everything that is innately our own with a wholly foreign experience. This is because there is nothing that can completely substitute for our own unique experiences with the world and our own abilities to solve the issues confronting us. Of course, I am not suggesting that it is impossible to transplant, replace, or renovate culture. I am only trying to show that the cultural renovation that happens when qualitatively different civilizations come into conflict

and clash cannot be successfully accomplished unless tradition and independence are adhered to.

If the "Westernizers" are wrong, does this mean the "China-firsters" are right? No. Absolutely not. The relationship between Chinese and Western culture is not amenable to "either/or"-type thinking.

The stance of the "China-firsters" is exemplified by the "neo-Confucianists" and the "Confucian revivalists." The basic position of these groups is: The roots should be formed of traditional culture, Western culture can be used as a nutritional supplement, and in the soil of modern society we should cultivate a new Chinese cultural plant that is different from Western culture, and Confucianist culture should be revived in our modern society. One has to admire these noble attempts to unearth the essence of traditional Chinese culture and develop a glorious China in the soil of modern history. However, they obviously overlook the following historical premise: Traditional Chinese culture and Western culture are separated by an enormous gap in time. Traditional Chinese culture is no longer capable of linking up with and conducting dialogue with modern Western culture on the cutting edge of the present age. It is without a doubt painful to acknowledge this fact. However, if we avoid or ignore this fact, then the development of our national culture will be led astray and an even greater historical tragedy will come about. Undoubtedly, the "Confucian revivalists" have only noble intentions. However, in the end, it flies directly in the face of real-life historical development, and is but a modern "utopian dream" that can never be realized.

The future direction for development of traditional Chinese culture should be found by looking at the historical development of the great cultures of the world. There are three basic features of human cultural development: The temporal nature of the culture, the national character of the culture, and the universality of the culture. Thus, our traditional culture will inevitably develop in the following direction: It will be squared off with the present age and will undergo an acid test which will transform it, creative changes will occur, and the result will be a highly Chinese, modern, socialist culture that is true to the age we live in, that is true to who we are as a people, and that is a reflection of the soul and spirit of all Chinese people. This sort of culture will be a condensation and crystallization of the spirit of the age that is heavily flavored by the times we live in, and it will possess the unique personality of the Chinese national culture with the superior elements of traditional Chinese culture being passed on and glorified, transformed, and raised to new heights. This culture will be both an original creation of the national culture and a product to which world culture has contributed, where the superior elements of all national cultures are combined in one total creation.

### The Transformation and Creative Reformation of Traditional Culture

The modernization of China in the 20th century has not been the result of natural development of our traditional culture. Rather, it has been a process of being on the receiving end of history where the methods employed were thrust upon us. What this means is that, whether we talk about economics, politics, or culture, China must consciously proceed to make social changes to a degree greater than any Western nation.

Similarly, transformation of our traditional culture and adjustments to bring us up to date will require a high degree of conscious cultural change. In the eyes of cultural philosophers, no matter what form culture takes, it is essentially the externalization of the spirit of the people and the realization of the people's ideals. So, cultural reformation and transformation must be achieved by active participation in culture itself. The participatory nature of culture is fulfilled in two ways.

First, there is the awakening of cultural consciousness. Transformation and reformation of traditional culture will require above all that the subjects of culture begin to soberly embody an awareness of modern reality and cultural mind and that a reference system of values be provided for the task of transforming traditional culture. If the people engaged in changing the subjects of our culture persist in employing their old values and outmoded ideas about culture as they try to effect cultural transformation and reformation, then it will simply be a case of traditionalists trying to transcend tradition, the result will be that any transcendence achieved will be meaningless, and in the end there will be no way to free ourselves from the shackles of tradition and achieve transcendence. Thus, the primary conditions to fulfill in achieving a transformation and reformation of traditional culture are: We must stimulate the awakening of our cultural subjects in real-life practice through conscious, self-initiated exchanges with foreign cultures, we must move out into the great historical tide of world cultural exchange and cultivate a healthy Chinese cultural awareness, we must establish the correct attitudes with respect to both Western culture and our traditional national culture, we must actively draw on and borrow the appropriate qualities of liberalness, creativity, plurality, and the scientific method from Western capitalist cultures with modern industrialized production and commodity economies, and we must actively accept spiritual nourishment from the whole of humanity, foster a modern consciousness that is in tune with the spirit of the age, and push for the total awakening of all of our cultural subjects. When the consciousness of the subjects of our culture is awakened it will drive the subjects of our culture to use their reference system of modern consciousness to consciously transform the traditional culture with creative changes, the new sociohistorical environment will see tradition undergo renovation, we will be highly in tune with the times, certain elements of traditional culture will again be given completely new content and their historical value will be

altered, with the result that creative elements will come out in the new culture, an abundance of nourishment will be received from Western culture, and a modern culture of a new type will be created. This will be a completely new culture. It will not be purely the result of importing Western culture, and it will not be completely the result of following our own traditional culture. It will be the combined creation of our traditional national culture and superior aspects of Western culture.

Second, and equally important, are changes in the structural assortment of cultural activities, or altering the arenas wherein cultural history and practice unfold. If we look closely at Chinese culture, it is not difficult to recognize the contradictory doctrines and weird mix of characters that have dotted the landscape of traditional Chinese culture up to the present time. We have had people who at a conscious level have been fiercely opposed to tradition, and yet they have often subconsciously accepted and aligned themselves with tradition. The result has been that greater and greater deformations have been imitated, fiercer and fiercer changes have been attempted, and a lukewarm compromise between the old and the new has come out of it. This cannot but be a cause for serious, earnest reflection. In fact, culture, as the whole product of the social system, is inevitably interrelated one way or another with material, economic, and political life. Thus, "the weapons being criticized" cannot take the place of "criticism of the weapon." We cannot use culture itself to discuss culture. However, because this tendency does in fact exist, serious, critical inquiry into the actual social environment has long been hindered. This has interfered with the active transformation of our real-life historical experience with the result that the complexity and difficulty of cultural change has been exacerbated. Thus, in the end, we will only achieve cultural change if we actively and consciously transform the actual system and structures of our society, if we effect changes in the historical environment of our culture (the assortment of our cultural activities), and if we provide a new historical reference system in real practice that transcends the old one and that will allow us to effect changes in the subjects of our culture.

### Deceit Seen Widespread in Socioeconomic Life

90CM0221A Shanghai SHEHUI [SOCIETY]  
in Chinese No 4, 20 Apr 90 p 30

[Article by Zhang Linquan (1728 2651 3132): "Controlling 'Deceit'—One of the Most Important Tasks in Fighting Corruption"]

[Text] Recently our party and state have adopted a series of strong measures to punish corruption and clean up the blights on our society, and in doing so they have enjoyed tremendous popular support. But I believe that there is still one serious, rather widespread, problem that should be included in the punishment and cleanup: "Deceit" of every description is still a part of economic and political life.



**Counterfeit Commodities.** It has not taken long for a wide variety of counterfeit commodities to flood the market. Seeking exorbitant profits, people have passed off imitations of all the most famous brands and hot-selling goods, mixing the counterfeit with the genuine and replacing top-quality goods with second-rate copies. This has disrupted market procedures, siphoned off consumer profits, and destroyed the reputations of factories that produce famous brands and hot-selling goods.

**Prevarication.** In the same way counterfeit goods have appeared in the economic sector, in political life we have for some time been inundated with various strange cases of fraud, and prevarication has been among the most prominent. Nearly every time the party or the government formulates some policy or advocates some attitude, people rack their brains to find countermeasures, perpetrate frauds, and achieve their treacherous purposes. For example, if you advocate a younger contingent of cadres, people will lie about their age to a preposterous extent—the ages they claim would have made them two or three years old when they began school or seven or eight when they had children. The masses joke about these cadres, saying their ages are on a floating system. If you recommend that cadres master intellectual work, there will be people who offer fake diplomas—some of them people who never attended college a day in their lives, but who, all the same, produce proof of graduation from who knows where. If you recommend that the emphasis be placed on actual accomplishments when checking on cadres, there will be people who lie and falsify the numbers. In everything from crop area and output in agricultural production to output value and profits in industrial production, and from the population count in family planning programs to the results of ideological and political activities, they will talk nonsense, do as they please, and manipulate things to meet their needs. Some are so resilient and exaggerate to such an extent as to leave you speechless.

**Seeing No Evil.** In the face of this issue of “deceit,” some cadres are certifiably myopic. With respect to the many kinds of “deceit” in society they see no evil, hear no evil, and allow it to spread unchecked. Some of this can be attributed to bureaucratism, dereliction of duty, simple-mindedness, and ignorance of the consequences. Some can be attributed to relegating things of no personal concern to the back burner and continuing to ignore them even when they do affect one personally. Some cadres are afraid of annoying people or causing harm to themselves, so they turn a blind eye to what is going on and neither desire nor dare to tackle the issue. Some, I’m afraid, blindfold, gag, and bind their own hands for the sake of private gain. They are weak and open to persuasion, and they cannot handle these situations.

**Document Forgery.** This refers to certain departments and units that provide cheaters with false documents. The reason some cheaters recklessly run wild, secure in the knowledge that they have strong backing, is that more often than not they do have sufficient proof for their false claims. In the economic sphere there are

forged receipts, licenses, and inspection certificates, and in the political arena there are forged identity cards, residence booklets, diplomas, and so forth. These people can produce whatever credentials you wish to examine, stamped in red with the seal of any department or unit, and impressive enough to dazzle you, so that you have no reason to disbelieve them. In the course of time, it becomes difficult to distinguish the truth from the lies, and when the lies pretend to the truth, truth also becomes false.

**Sham Punishment.** This refers to toleration and lenience toward proven cheats. In some cases cadres consolidate at every step and constantly redraw the line according to the situation. They will refuse to grant an investigation before such-and-such a date, will never catch the horse thief, or will personally give it up as a bad job. He who originated the deception or profited enormously will remain free and unfettered. Sometimes people are allowed to get away with something once. In other cases, if the transgression has done no harm, no political action will be taken and no economic penalty will be applied. After applying self-criticism once, the individual is free to indulge in fame and fortune forever. In some cases major problems are represented as small problems, and small problems are considered no problem at all. These transgressors are punished via party and political discipline, but those who apply the punishment let them off with mere criticism.

It continues like this until the tide of deception spreads everywhere and becomes a flood. The growing population of people with phony clan affiliations has become a kind of social pollution. Given the fact that the party and the state have already taken the first steps toward establishing a climate and environment for punishing corruption and cleaning up the blights on society, I believe that if we are to truly punish “deceit” we must take the following three steps:

**First, we must truly bring the situation under control.** We must apply pressure, bring out the truth, and take practical action against those who deceive us. We must not allow them to consolidate at every step or to get away with something once. Based on an investigation of the truth, we must strictly punish each and every case of deceit, and we must treat everyone the same, without exception. We must use whichever political, economic, and legal measures should apply, and we must not be tolerant or excessively accommodating. At the very least we must tell these cheaters to completely renounce all ill-gotten political and economic fame and fortune. Otherwise it will not be worth educating these people and warning others against following their example.

**Second, we must put the masses in control.** Deceit is deceit, and can never become truth. No matter how clever people are they will still be found out. Isn’t it commonly said that if you don’t want people to know about something, you’d better not do it? I think this remains true. So long as we trust the masses completely, any kind of “deceit” can be controlled.

**Third, we must reward honesty.** As the saying goes, vice does not triumph over virtue. If we want to control "deceit," then our most crucial measure must be to reward honesty. As we punish cheaters, we must also go all out to publicize, support, commend, and promote those comrades who genuinely and sincerely uphold the party line, principles, and policies, and who strive neither for fame nor fortune, but are honest in word and deed on behalf of reform and deregulation. By glorifying the party's fine traditions and practices and the tradition and virtue of the Chinese nation, we can form good party, national, and social customs and remove the foundation and conditions upon which deceit thrives. With no place to hide and no ground upon which to stand, deceit will inevitably be destroyed.

### Survey Examines Causes of Crime Among Young Workers

90CM0293A Beijing FAZHI RIBAO in Chinese  
11 Jun 90 p 3

[Article by Lu Difeng (7120 6611 7364) and Zhang Congjiang (1728 1783 3068): "Sample Survey and Analysis of Crimes Currently Committed by Young Workers"]

[Text] To clarify what factors influence young workers to commit crimes and to explore countermeasures for preventing and reducing crimes by young workers, we conducted a questionnaire test survey of 100 young workers recently detained for crimes by a certain supervisory organ. Below we analyze the collected data:

#### I. Subjective Factors Influencing Crime

**First factor:** Deformed, abnormal material and spiritual demands are direct causes of crimes committed by young workers.

The survey shows that, with regard to criminal motives, property crimes were mainly cases of squandering money on food and drink, making trips to scenic spots, buying high-grade domestic electrical appliances, paying gambling debts, and engaging in trade; sexual crimes [committed by] men were mainly cases of seeking sexual stimuli, while for women they were mainly cases of getting money and pursuing pleasant sensations; and assault crimes were mainly cases of taking revenge, being curious, and desiring to excel over others. The survey shows that deformed, abnormal material demands are the direct exciting causes of the crimes committed by young workers. The reasons for these motives were: for property criminal cases the main cause was an abnormal desire for material possessions; for assault criminal cases the main cause was the outlook on the freedom of "going into exile to seek hegemony"; and for sexual criminal cases the main cause was the decadent, declining outlook of hedonism. Once these deformed, abnormal material desires and spiritual demands could not be satisfied and a suitable climate was encountered, a criminal consciousness was formed, becoming an internal driving

factor which produced the idea of committing a crime without considering the consequences.

**Second factor:** Decadent ideological consciousness and declining philosophy of life were the spiritual props for the crimes committed by young workers.

To dig out the subjective factors in criminal cases, we selected some popular tenets in society in our survey. The results showed that the idea that "individual interests are higher than everything else" was the core of the outlook on life in criminal cases. A decadent ideological consciousness and a decadent, declining philosophy on life were the spiritual props for the crimes committed by young workers. Most of the criminals surveyed held such fetishes as "unless a man looks out for himself, Heaven and Earth will destroy him" and "man lives in this world for two things: food and drink." When discussing these tenets, many criminals said that another tenet must be added: "the wife comes third, and the children come fourth." Many property criminals believed that "people will die for [their] wealth, birds will die for [their] food." Sexual criminals believed mainly that "if one's youth is not beautiful, one will regret it when about to die." Many criminals said, "While a man lives he should eat, drink, and be merry as much as he likes." Still others said, "The greatest delight in a man's life is to enter the lockup for prisoners awaiting trial and to carry on with women; only this can be reckoned as the modern man's concept of life." Because they believed in a decadent, declining outlook on life, they pursued pleasure to the ultimate, and they had a high degree of desire for money and material goods. When their own capability and their rapacious desires contradicted each other, this unbalanced psychology was further strengthened, and thus they took the path of crime.

**Third factor:** Loss of balance in choice of values caused young workers to commit crimes.

To inquire into the criminals' choice of values, we asked, "what people do you most revere?" and "what things do you most revere?" This multichoice comparison basically reflected the different value choices made by various types of criminals from a different angle. The people most revered by property criminals were, first, supply and marketing personnel, second, individual householders, and, finally, factory directors and managers; the things they most revered were, first, money, power and influence and, next, law, honor, and skill. This showed that the basic characteristic in their choice of values was centered on money. The people whom sex criminals most revered were, first, themselves and, next, factory directors and managers; the things they most revered were, first, money and, next, power, influence, and position. This showed that the basic characteristic of their value choices was to make the "self" central, and, with money, power, influence, and position as the "balance weights," to pursue pleasure. For sex they disregard everything else. The people most revered by assault criminals were, first, factory directors and managers and, next, other personnel; what they most revered was, first,

honor, power, and influence and, next, making friends. This showed that their choice of values centered on honor and position. To show themselves off, excel over others, and act like overlords, they did not hesitate to commit crimes.

## II. Objective Factors Influencing Crime

First factor: enterprise management is imperfect, and it neglects to take preventive measures for public security, which abets the commission of crimes by young workers.

Looking at the survey we see that of the 100 criminals, 46 percent of the cases occurred inside the unit, 37 percent occurred both in the unit and in society, and only 17 percent occurred just in society. There was a direct relationship between the frequency of cases occurring within the unit and the weak links existing in internal management.

The weak links in internal management are: 1) The base number of "four workers" personnel is unclear. According to data provided by the labor departments, after opening up to the outside world and invigorating the economy, each place had many "four workers" personnel (temporary workers, contract workers, extra-contract workers, and peasant workers) who went into units to work. Among the "four workers" personnel, there are fairly many idle personnel in society, and among them are many "three labors and one education" personnel (reform through labor, forced labor, education through labor, and less educated) for whom arrangements have not yet been made in society, and their status is fairly complex. In the management of these personnel, basically there is a situation in which the unit using the workers only manages the use of personnel, the unit dispatching the workers only dispatches personnel, and the internal security departments cannot manage personnel. This causes a situation in which many criminals are mixed among the personnel and in which the problem of crime is fairly prominent. Many of the gang criminal cases surveyed were ones in which "four workers" personnel had taken part. 2) Work procedures are not strict, and the base numbers for producing raw materials and finished products are not clear. 3) Production materials, finished products, and semifinished products are stored and distributed in a disorderly [way], and no one knows when things are stolen. Based on a survey of the places where internal cases of robbery occurred, one-third of the places selected were warehouses, compounds, and finished or semifinished product workshops. There are also some criminals who, after being apprehended, handed over information as to the time, place, and value of the crime. The personnel investigating the crime want the unit in which the crime took place to corroborate data, but the unit is basically unable to do so because its people know nothing about such things. From one aspect this reflects the confusion in the internal management of units.

Second factor: the idea of "substituting punishment for education" in ideological work and the "neutral gear" in

the operation of political work mechanisms weaken the effect and authority of enterprise ideological work.

Because there was a clash of contradictions after the "Enterprise Law" went into effect during the process of replacing the old system with the new and in which positions changed, there appeared the phenomenon of operating in "neutral gear" in enterprise ideological work in which "the ACFTU [All-China Federation of Trade Unions] and the CYL [Communist Youth League] were afraid of being 'offside' and the secretaries left their posts." Of the factory director's and manager's authority over the planning, decisionmaking, guidance, and coordination of political and ideological work, the third one became the main part of the ideological and political work. The secretary, from being an "old hand" in reality, became an "old hand" in name only whose authority was limited to making suggestions and supervising. Some political workers became anxious. With the political work mechanisms operating in "neutral gear," there were no supervising and restraining mechanisms between them. The main form of education for staff and workers was changed by the public security departments to one in which "punishment replaced education," and punishment became an end in itself. As a result: 1) It caused young workers to value excessively material interests and to have "the ideological trend of worshipping money." 2) Management functions became empty functions, and "punishment replacing education" became rampant. When the question "how does your unit handle violations of law and discipline" was put, 10 percent of the criminals replied "circular notices of criticism" and 90 percent replied "fines." Worker recruitment was not examined. In internal recruitment, connections were looked at; and in overall recruitment "fractions" were looked at. Of the criminals surveyed, 80 percent had not been politically examined before entering the factory. The "neutral gear" operation of the political work mechanisms weakened the effect and authority of enterprise ideological and political work, so that it was impossible for the enterprise to give young workers a positive education, which caused an increase in the number of crimes committed by young workers.

Third factor: the unhealthy atmosphere in some enterprises forms a "catalytic agent" and an umbrella for young workers to commit crimes.

The unhealthy atmosphere in the units was: 1) Unfair distribution. Some criminals said, "In our factory first-line workers do tiring and heavy work, but only get several dozen yuan in bonuses; at yearend the factory director can get several thousand yuan and even several times 10,000 yuan in bonuses." 2) Gambling. When asked if there was gambling in their factories, 20 percent of the 100 criminals replied "no"; 35 percent replied "yes"; and 41 percent replied "a lot" and "rampant." Rampant gambling caused young workers to commit crimes. 3) Pilfering. Staff and workers in many enterprises, influenced by the ideas of "getting extra income" and "looking for money in everything," were not afraid to pilfer things belonging the state or the collective, and

had become accustomed to doing so. 4) Sheltering. In individual units it was not the case that the leaders did not know about the existence of "gambling" and "pilfering," but rather it was the case that they knew about them but did not care. The reason was that this situation was extremely widespread. When beginning an investigation they, first, feared adversely affecting the production results of workshops, teams, and groups, and of the factory as a whole; second, they feared offending people, thinking that doing many things was not as good as doing few things; and, third, they feared that it would be difficult to handle matters. Rampant unhealthy trends in units objectively sheltered and abetted the commission of crimes by young workers.

Fourth factor: The inroads of "evil culture" and the "three colors" pollution of the social environment stimulate the desire of some young workers to commit crimes.

Social predisposition had a direct effect on "three colors" pollution. 1) The "yellow" pollution in the cultural market. 2) The "grey" pollution in the microclimate. Within a unit, unfair distribution, the practice of eating and drinking one's fill, gambling, and pilfering, along with the "grey" pollution of "making personal relationships," "being young," and "being masculine" in an optimum combination, exerted a subtle influence on the commission of crimes by young workers. 3) The "black" pollution in public order. With the rampant momentum of crime, the development of more resourceful criminal methods is now a prominent problem [for those] keeping public order. In addition, public opinion and the broadcasting media distort and exaggerate some cases. This, on the one hand, makes young worker criminals feel that society's noncoercive supervisory capability and its effective force to inhibit crime are weak, and when they commit crimes they have "no fear of disturbance from the rear"; and, on the other hand, it raises the young worker criminals' consciousness for committing crimes.

Fifth factor: With the separation of the "root" and "branch" and with the "three no controls" of the young workers, society's capability for control is fairly weak, which creates conditions for young workers to commit crimes.

In the city, life is the "root" and work is the "branch," and "branch" and "root" are separate from each other. This separation both weakens the social and regional capability for control and has a direct effect on the commission of crimes by young workers. 1) It weakens the unit's control over young workers. A young worker is in his unit for less than eight hours, and he is in society for more than eight hours. Between the unit, the home, and society there is a lack of connection and a lack of coordination, forming the "three no controls." 2) It causes an increase in the young workers' bad associations. Looking at the survey results, we see that most of the objects of the young worker criminals' friendship were those persons who had been reformed by labor,

educated by labor, or punished by public security forces; most of them got together to talk about how to get money, get drunk and gamble, scuffle, and brawl. 3) It provides opportunities to break the law and commit crimes. According to the survey, of the social crimes committed by young workers, 29 percent were committed outside the team, 27 percent were committed when the workers stayed away from work without leave or good reason, 26 percent were committed during long work stoppages or short sick leaves, and 10 percent were committed when the worker's pay was stopped but he retained his post.

### Pressure To Go Abroad Remains High

90CM0265A Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 244, 1 May 90 pp 86-87

[Article by Ta Wei (1129 5898): "Upsurge in Going Abroad on Mainland"]

[Text] The number of people going abroad is like the stars filling the sky—musical circles could organize six symphonic groups and just the number of Ping-Pong players going abroad totals 180. Every year there are 20,000 marriages with foreign nationals, and the buying of passports by natives living abroad has become commonplace. The Education Commission restricts the number of university students going abroad, and a boycott is brewing by middle school student entering the university.

Mainland China has a population that is the largest in the world, and the number of people wishing to leave the country is also the largest in the world. Outside of the 800 million or more peasants who have enough to eat and are content with their lot, of the city residents with the power, money, and education, provided they do not consider themselves naive in comparison to others, who among them doesn't want to leave the country?

"Those with power" are the children and grandchildren of high-ranking Communist Party cadres, who have the inheritance of their father's or grandfather's generation, and, besides being sent abroad, can engage in business and special tasks. Among these people, it isn't long before those holding a green card suddenly become "foreigners."

"Those with money" are people engaged in individual production or enterprise who have flourished under the "invigoration of the economy." They are enormously wealthy and fully aware that the fate of the Communist Party is uncertain, and use their money to buy passports, be it from Fiji, Tonga, or Belize; as long as they will not be treated as Chinese, they spare no cost.

"Those with education" are the large numbers of students whose hopes have turned to disillusionment, but who seek to achieve their dream through this one step of going abroad. Converting foreign currency on the black market, seeking people who will act as guarantors, and



losing the family fortune, provided they can obtain a visa, they will be willing to do dishes after they arrange to go abroad.

There is also the type of person who does not belong to any of the three categories described above, but because she seeks a "foreign husband," marries a foreigner to make a contribution to "the great unity of the peoples of the world."

#### The Exodus of Performers, Artists, and Top-Notch Athletes

In meetings with music and dance figures in Hong Kong, one may discover an interesting phenomenon: Within this circle, a sizable number speak very inadequate, very impure Cantonese, but if one uses putonghua [Mandarin] or Shanghaiese to communicate with them, then the talk flows easily. Roughly 80 percent of Hong Kong's orchestra conductors, orchestra performers, music department professors and dance school teachers are from Beijing and Shanghai. Some people jokingly say that Hong Kong should establish a "Central Orchestra Branch," a "Beijing Dance School Branch," and a "Shanghai Symphony Branch."

Not long ago there was a report stating that during the last 10 years (1979 to 1989), Beijing's Central Ballet Group, Central Symphony, Central Opera House, Central Song and Dance House, and Central Music Institute altogether had 470 people go abroad, and if at the same time we add to these figures the directly related members of the families of those musically talented people who have settled abroad, it would be possible to form as many as six fully staffed orchestras.

Since the 1982 New Year's first performance of the world-famous opera *Carmen*, Beijing's Central Opera has altogether trained eight "Carmens" over a period of seven years. Of these, Miao Qing [5379 7230] has gone to France, Wang Huiying [3769 1920 5391], Liang Ning [2733 1337] and Zhan Manhua [6124 2581 5478] have gone to the United States, Yang Jie [2799 3381] has gone to Singapore, while the other "Carmens" also will step through the door and go abroad. One report from the mainland wistfully noted: The Central Opera House has trained a good number of "Carmens," though each time *Carmen* is performed, the latest vacancy is still for "Carmen" herself.

Among the musicians who have gone abroad, there is no lack of well-known figures who could win prizes and victories in top international competitions, such as Liang Ning, Zhan Manhua, Hu Kun [5170 2492], Ye Ying [0673 5391], Hu Xiaoqing [5170 2556 2532], Zhang Jianyi [1728 1696 0001], Tan Dun [6223 4163], Huang Anlun [7806 1344 0243], Wen Yanqing [3306 3601 7230], Zhu Mingying [2612 2494 3841], Su Xiaoming [5685 1420 2494], Yin Chengzong, [3009 2110 1350] and Liu Shikun [0491 6108 2492].

The departure of movie figures abroad has caused an even greater sensation. Over the years, movie stars such

as Chen Chong [7115 0394], Zhang Yu [1728 3842], Chen Ye [7115 8518], Siqin Gaowa [2448 3830 7559 1216], Gong Xue [7895 7185], Shen Danping [3088 0030 5493], Yin Tingru [3009 0080 1172], Zhu Biyun [2612 4310 0061], Gai Ke [5556 0344], Cong Shan [0654 3790], and Zhang Tielin [1728 6993 2651]; and directors Wu Tianming [0702 1131 2494], Chen Kaige [7115 0418 2960], Zhang Weixin [1728 0251 2946], and Peng Xiaolian [1756 1420 6647] have all gone abroad to the West.

Numerous sports figures have also gone abroad. The number of Ping-Pong players who have gone abroad to teach and be of service to foreign Ping-Pong teams numbers more than 180, among them 15 world champions: Zhou Lansun [0719 5695 5549], Liang Lizhen [2733 7787 3791], Li Henan [2621 6378 3948], Liang Geliang [2733 2047 0081], Hu Yulan [5170 3768 5695], Guo Yuehua [6753 6460 5478], Cai Zhenhua [5591 2182 5478], Zhang Deying [1728 1795 5391], Ge Xinai [5514 2450 1947], Tong Ling [4547 3781], Cao Zhenhua [2580 2182 5478], Shi Zhihao [2457 0037 4110], Chen Xinhua [7115 2450 5478], Xie Saikie [6200 6357 0344], and Wang Huiyuan [3769 2585 0337]. West Germany's Ping-Pong team has 12 former Chinese mainland team members. For a time, everybody was talking about the story of two world champion members of the women's team, Jiao Zhimin [3542 1807 2404] and He Zhili [0149 2535 7787], who married a South Korean and a Japanese respectively. In other sports, gymnastics team members Li Yuejiu [2621 2588 0036] and Wu Jianyi [0702 0163 1200] have gone abroad, as has badminton player Han Jian [7281 0256]. The women's volleyball team, winners of five straight championships, has seen Lang Ping [6745 1627] and Yang Xi [2799 1585] go to the United States, Chen Yaqiong [7115 0068 8825] go to Hong Kong, Yang Xilan [2799 6932 5695] go to Switzerland, while Zhang Jieyun [1728 3381 0061] and Yang Xiaojun [2799 2556 0689] are preparing to go abroad, six players who could form a "women's volleyball overseas team."

#### Marriage to a Foreign National: Shortcut To Going Abroad

In the upsurge of going abroad, there is a large number of women who are marrying overseas Chinese or foreigners. According to internal data from the civilian administration department, between 1979 and 1988 "foreign national marriages" of Chinese mainlanders with foreigners, Chinese nationals living abroad, and residents of Hong Kong and Macao, totaled more than 200,000, an average of more than 20,000 per year. Of these, Guangdong Province accounted for 90 percent, with more than 15,000 occurring in 1987. In 1982, Beijing had only about 70 foreign national marriages, a figure which had reached 400 six years later, and, after 1987, the break-neck rate of increase passed 40 percent, at present topping a total of 1,000 per year. In 1978, Shanghai's foreign national marriages could be counted on one hand, while in 1985 the number had grown to 400, and in 1986 this had doubled to 800. At present, the number each year is the same as the figure of over 1,000 for Beijing. From 1982 to 1984, Tianjin averaged only 25

foreign national marriages per year, while in 1987 this had increased to 63, and a total of close to 200 in 1989. Though the total number for Tianjin is small, the rate of increase tops the list. The data show that, among the foreign national marriage registrations, 95 percent of the women are Chinese, and, after registering the marriage, 99 percent go through the formalities and go abroad.

In addition, according to U.S. Immigration Bureau statistics, cases of marriage with Chinese mainland women have moved into third place among marriages of U.S. citizens with foreigners, with only the Philippines and Japan having more.

### A Major Exposure of False Passports

On 23 May 1988, the Xiamen airport departure inspection station discovered two persons from Tianjiang in Fujian Province who were using false passports for departure. They had each spent \$17,000 to obtain the fake U.S. passports. Fujian's Tianjiang is a well-known hometown of Overseas Chinese, is very prosperous, and has had many people go to the United States to work. Public security police asked the two, "Your hometown is doing so well, why do you still want to leave?" Their reply was very candid: "I can't compare with others, they are doing even better compared to me. Haven't you heard about the grandchildren of high officials who are all going abroad? If the outside is not good, why are they able to escape to the outside? What is there to wait for here?" The speakers clearly were not educated, but their words were more honest than those of an educated person.

Buying passports to go abroad has already become commonplace, and there are more and more problems emerging from this practice. Not long ago more than 20 people from Enping in Guangdong Province were turned back attempting to go to Venezuela via Hong Kong in what is believed to be the first instance of a major exposure of the black market in passports.

It is getting more difficult to go abroad at a time when Chinese are more and more eager to go abroad. A month ago, at a general amnesty registration in Macao, an unexpected 50,000 underground city residents emerged to sign up, nearly one-tenth of the city's population. Chinese Communist Party officials explain that these black-market (illegal) residents are all "blind-flow" people (workers going to cities in search of work) and "unemployed drifters." It was not worth it for them to refute the fact that this situation can only get worse.

### General Order of Education Commission Holds Back the Outward Flow

On the Chinese mainland, due to the fact that it is difficult to get approval when applying to go abroad, many intellectuals, in order to be able to "conform to the prerequisites for going abroad," would rather forsake titles above that of assistant professor and second-level actor/actress, because the government has stipulated that all those who have achieved these high-level titles must remain in the country to "make a contribution," and are not permitted to go abroad.

Not long ago the National Education Commission issued 1990 Document No. 14, which places further restrictions on the number of undergraduates and graduate students from each university going abroad and stipulates that after graduating they must complete a service period of five years, after which they can apply to go abroad as students. This affects present university students and university students and graduate students who have graduated within the last four years, making them unable to apply to go abroad for study. It is evident from this that middle school students from such places as Beijing and Shanghai, already refusing to take examinations for entering the university, are preparing to take the TOEFL [Test of English as a Foreign Language] while in senior middle school, and, after qualifying, are applying directly to foreign universities to avoid the restraints of the CPC document.

Figures in Beijing education circles have shown uneasiness and special concern about this situation. They believe that the National Education Commission document in fact couldn't be more absurd, as though its real intention is to block the outward flow; in reality the effect will only be just the opposite, and will instead impel the most outstanding students to go abroad even faster and sooner. In addition, if the boycott by outstanding middle school students refusing to enter the universities spreads, this is bound to create a reduction in the quality of the new students entering the universities, which will have an even more disastrous effect on China's educational system.

Recently, Xie Xide [6200 1585 1795], the head of Shanghai's Fudan University, and joint chairman of the Shanghai City government, at the first symposium held in Shanghai on the question of students going abroad, noted that "if everyone goes abroad and does not return, then who will teach classes in the schools? With people only leaving and not returning, we have not found a 'point of equilibrium (balance).'" This sigh of regret aptly illustrates the "go abroad, not return" situation of university students going abroad to study.

### **Advances in Tank Production Reported**

90CM0281A Hong Kong KUANG CHIAO CHING  
[WIDE ANGLE] in Chinese No 212, 16 May 90  
pp 30-39

[Article by Ling Yu (0407 1342): "The Inside Story on the Development of Tanks by the Chinese Communists"]

### **[Text] Chinese Tank Development Long a Closely Guarded Secret**

The inside story of Chinese tank development had long been a closely guarded secret, and only random scraps of information were available outside China. In recent years, though, as China has moved to expand arms exports, a lot of information has gradually come to light. Intelligence on some of the newest tanks has even been revealed.

### **Chinese Communist Tank Forces Were Born During the Civil War Between the Kuomintang and the Communists**

Chinese Communist tank forces were born during the civil war between the Kuomintang [KMT] and the Communists. At that time, the first tanks in the Communist forces were those which Japan had used to invade China, and U.S.-built M-3 light tanks surrendered on the battlefield. When the Korean war broke out and the Chinese Communists sent the volunteer troops to fight in the war, the Soviet Union sold large amounts of World War II surplus armament to China, including T-34 medium tanks and Stalin-1 and Stalin-2 heavy tanks. In combat with the U.S.-led UN forces, the Chinese Communists gained tank warfare experience and its tank forces gradually began to take shape.

### **Soviet-Built T-34 Serves as Standard Equipment After Korean War**

After the Korean War, the Chinese Communists did away with their diverse collection of Japanese- and U.S.-built tanks and settled on the Soviet-made T-34 as the standard, and China produced copies of the T-34 in small batches. The tanks produced in China were called Te-34's, "Te" [3676] being a Chinese transliteration of the letter "T."

The T-34/85 tank weighed 32 tons and its armament included an 85-mm gun, a 7.62-mm coaxial machine gun and a 7.62-mm directional machine gun. Some of the Te-34's built by the Chinese Communists had a 12.7-mm antiaircraft machine gun mounted atop the turret.

At the same time, the Chinese Communists also hired Soviet military advisers to come to China and teach courses on tank warfare to Chinese Communist military personnel in the newly established Armored Forces Academy, which lay the foundation for the development of China's armored forces.

### **The Centerpiece of the Chinese Tank Forces—the 59**

In the mid-1950's, the Soviet Union began supplying the Chinese Communists with T-54 main battle tanks [MBT's]. This type of tank was quite new. The combat weight of the T-54 was 36 tons, and the power-to-weight ratio was 14.44 horsepower per ton. Its V-12 water-cooled diesel engine produced 520 horsepower. Its armament included a 100-mm rifled tank gun, one 12.7-mm anti-aircraft machine gun, one 7.62-mm co-axial machine gun, and one 7.62-mm directional machine gun. It had a crew of four.

The T-54 had a low profile, which helped to reduce its target area and made the tank easier to camouflage. Its turret was oval and cast in a single piece, which gave it an excellent exterior shape for bomb resistance, but its armor was relatively thin, which reduced the degree of protection it afforded the crew. The interior of the T-54 was cramped, and the turret lacked a "suspended basket," which forced the crew to shift position as the turret swiveled. The engine gave off too much heat and the air conditioning system was not good, which tired the crew more quickly and affected performance. The commander and the gunner were crowded together on the left side of the turret and the loader's seat was on the right, which meant that the loader had to use his left hand to load 25-kilogram projectiles into the magazine (easy for a lefty!). After the three projectiles stored in the inner turret wall were discharged, the loader had to climb down into the tank to retrieve more. Not only did this reduce the rate at which the gun could be discharged, but when the turret swiveled it was very difficult for the loader to climb out of the turret, which caused missed opportunities in combat.

The main gun of the T-54 was a D-10 series 100-mm rifled tank gun. The gun could rotate 360 degrees along with the turret, and the gun's elevation/depression was +17 degrees and -4 degrees. The tank carried a total of 34 armor-piercing rounds, armor-breaking rounds, and grenades. Auxiliary armament included a 12.7-mm DShKM antiaircraft machine gun which carried 500 rounds of ammunition, one SGMT 7.62-mm coaxial machine gun mounted parallel to the main gun, and one SGMT 7.62-mm directional machine gun controlled by the driver. Together, these latter machine guns carried 5,000 rounds of ammunition.

The Chinese Communists built their first copy of the T-54 in 1958 and named it the "59." The 59 gradually replaced the T-39 and Te-34 medium tanks and became the principal tank of the Chinese Communist military forces.

The 59 was a direct copy of an early version of the T-54, so it inherited the inadequacies of its predecessor. It lacked a precise fire-control system, lacked a gun stabilizer, lacked a submersible ventilation system, lacked an automatic fire-extinguishing system, and lacked defenses against nuclear, biological, and chemical [NBC] warfare.

The commander could not control the turret's swiveling, and the main gun and the commander did not have an infrared search light.

Only after the 59 went into production did the Chinese Communist military industry gradually begin to make use of new technology to upgrade the tanks in order to lengthen their period of service. For example, a uni-directional (up and down) stabilizer for the main gun was installed. In the mid-1980's, a submersible ventilation system was developed, as was a new 100-mm armor-piercing fin-stabilized discarding sabot [APFSDS].

Since its development in 1958, the 59 has been widely used by Chinese Communist military forces, and its production has gradually increased. The 59 was originally manufactured by factories in Baotou, Inner Mongolia. About 500 to 700 were being produced by the mid-1970's in work units in other provinces and municipalities throughout China. It is estimated that annual production of the 59 had risen as high as 1,000 by 1979, but this figure fell to 500 in 1980 due to a reduction of the defense budget. Production went back up to 600 in 1981, though, then to 1,200 in 1982, and 1,500-1,700 in 1983. These production figures include various other types of vehicles which use the same chassis, and the figures for 1982 and 1983 include model 69's manufactured in those years.

#### **On the Sino-Indian and Sino-Vietnamese Battlefields**

The 59 was used in the 1962 Sino-Indian border war, and a modified version of it served as a tow vehicle in the Sino-Vietnamese border war of 1979. Apart from equipping Chinese Communist forces, the Chinese Communists have also exported the 59 in great numbers. The largest user is Pakistan, which has obtained more than 1,100 of them and used them in the 1971 Indo-Pakistan war against India's Soviet-built T-54's and T-55's. North Vietnam also obtained about 160 59's for use against the United States and to invade Cambodia. Other nations that have obtained the 59 from the Chinese Communists include Albania, Bangladesh, the Congo, North Korea, Tanzania, and Zimbabwe.

#### **The Modified 59 MBT appears in Tiananmen for the first time**

Western intelligence indicates that the Chinese Communists obtained via Pakistan the barrel of an M-68 105-mm rifled tank gun from a U.S.-built M-48A-5 tank in the Pakistan Army. After receiving this gun, the Chinese Communists quickly succeeded in manufacturing copies of it, as well as various rounds used by this gun.

The 105-mm rifled tank gun is a standard tank weapon widely used by NATO nations and their friends. Its performance is superior, and it proves itself in war in the Middle East. After the Chinese Communists successfully copied the 105-mm gun, they soon began to install it on new 59's. All 59's equipped with this 105-mm gun have been redesignated as the Modified 59 (or 59-G). The first place where they came to light was at the military parade

at Tiananmen on 1 October 1984, for which reason some in the U.S. intelligence community also refer to the Modified 59 as the M-1984.

The combat weight of the Modified 59 is 500 kilograms greater than that of the 59. It still carries 34 projectiles for the main gun, but its range is 80 percent longer than that of the 59, extending to 1,850 kilometers.

I believe that production of the 59 and the Modified 59 has ended, but the Chinese Communists may still be installing 105-mm guns on existing 59's in order to extend their service into the mid-1990's.

#### **Modification Plans for the 59**

The Chinese Communists' Northern Industrial Corporation [NORINCO] proposed a plan to modify the 59 in 1986. The principal target of this modification is foreign users. The plan includes replacing the 59's 520-horsepower diesel engine with a 730-horsepower diesel engine. An NBC protection system would be added to the tank, as would a gun stabilizer and a new fire-control system. Rubber-cushioned tracks and shock absorbers would be used, and the tank would be equipped with AP100-2 100-mm armor-piercing fin-stabilized discarding sabot ammunition (APFSDS-T). It is reported that the initial velocity of a projectile from the AP100-2 is 1,480 meters per second, and that it can pierce 150-mm armor at an angle of 65 degrees from a distance of 2,400 meters.

Britain's MEL Corporation once sold the Chinese Communists 30 sets of passive night-vision equipment for use by tanks, including a DC1026/00 image-intensified periscope used by the commander, a DC1024/00 image-intensified periscope used by the gunner, and a DC1028/00 image-intensified periscope used by the driver.

British Royal Ordnance installed an L7A3 105-mm rifled tank gun and a Barr and Stroud IR18 thermal imager on a privately owned 59, and conducted a successful firing test at Bovington. The British Royal Ordnance later installed ROMOR [reactive armor] on the tank.

The Cadillac Corporation of the United States and the Chinese Communists' China National Machinery Import and Export Corporation exhibited a project for joint development of a tank whose chassis is based upon that of the 59. The tank has been named the Jaguar. The major objective of the Jaguar's development is to expand export markets. It uses the chassis and suspension system of the 59 and switches to a new diesel engine from Detroit with 670 to 750 horsepower. It will have an XTG-411 automatic transmission, a McKinney digital fire-control system, a dual-axle stabilizer system, and an automatic fire extinguishing system. The turret will be welded. A 105-mm recoilless gun will be installed, and the seating arrangement for the crew will be changed to match the style universally adopted by NATO. The combat weight of the tank will be 40 tons. The first prototype was completed in early January 1990.



### The 69 MBT Series

The 69 is in reality an upgraded version of the 59. It preserves the compact design, low body, oval turret cast in a single piece, and cramped interior of the 59. Its external appearance is also very similar to that of the 59. The primary upgrades include a main gun with a stabilizer, a rudimentary fire control system and an infrared night aiming device, an NBC protection system, a semiautomatic fire-extinguishing system, and smoke-laying equipment similar to that found in tanks from the Soviet T series, in which a smoke screen is created by injecting diesel fuel into the exhaust outlet. In addition, the engine cooling system and the fuel delivery and combustion system have been improved, increasing horsepower to 580 from the 59's 520.

When the 69 first went into production, two versions—the 69 I and the 69 II—were produced concurrently. They differ in several ways. The 69 I has a 100-mm smooth-bore gun which can discharge antipersonnel grenades, armor-breaking rounds, and high initial velocity APFSDS. The profile of its radar rangefinder is relatively large, and the barrel on the main gun is relatively long. The 69 II has a 100-mm rifled barrel gun which can discharge improved antipersonnel grenades, armor-breaking rounds, armor-piercing rounds, and three different kinds of APFSDS, one of which has a semiflammable shell. The fire-control system of the 69 II is slightly different from that of the 69 I. The laser rangefinder of the 69 II has a smaller profile and there are armored skirts mounted on either side of the 69 II. Both the 69 I and the 69 II carry 44 projectiles, and they both have an infrared sight handled by the commander, an infrared aiming device used by the gunner, an infrared sight mounted on the upper right-hand portion of the main gun, and two infrared driving lights for the driver.

The rudimentary fire-control system newly installed on the 69 has four component systems: a laser rangefinder, a ballistic computer, a two-way stabilizer, and a step-by-step aiming device. The installation of this fire-control system has increased the firing speed and accuracy of the main gun.

Probably only 150 to 200 69 I's were built because it was discovered during testing that the armor-piercing capability of the 100-mm rifled tank gun was superior to that of the smooth-bore gun. For this reason, the Chinese Communists converted 69 I production facilities to build 69 II's.

There is another tank of this model called the 69 III whose main gun has been replaced by a copy of the U.S.-built M68-M 105-mm gun.

The 69 II is one of Beijing's principal export commodities. The Chinese Communists first exported 100 to 200 69's to Iraq via Saudi Arabia in 1983. From that time through the end of 1989, the Chinese Communists supplied a total of 1,800 to 2,500 69 II's to both Iraq and Iran. In early 1987, Thailand announced a large arms purchase from China, including 500 69 II's which were sold to Thailand at a

"friendship price" and were to be used to counter the threat from Vietnamese troops which had invaded Cambodia. The Thai Army referred to the tank as the type 30.

### The 79 MBT

In the military parade during the 1984 National Day celebrations in Beijing, the type-79 MBT made its first public appearance. Official reports only referred to it as "a new tank."

The 79 is very similar in exterior appearance to the 69. One of its main identifying characteristics is a 195-mm rifled tank gun designed by Israel. A heat-protective sheath is installed on the barrel to reduce warping caused by temperature, thereby increasing the gun's accuracy. There is also a fume extractor installed on the barrel's midsection.

The overall design, automotive components, and turret shape of the 79 are all very similar to the 69, but the turrets have slight differences. There is a new large square windshield in front of the commander's hatch, and there is an internally mounted laser rangefinder. A rudimentary fire-control system is also installed inside the cabin.

A removable armored skirt is mounted outside the tracks on either side of the 79, and the tracks are a new type which have installable/removable rubber cushions. The engine compartment is a bit larger than that of the 69, and it probably has an engine with greater horsepower.

### A New Generation of MBT's—the 80 Series

The 80 series of MBT's was developed in the 1980's, and there are now four models in the series: the 80, the 80 II, the 85 II, and the 85 IIA.

The 80 is not actually built from a new design. Strictly speaking, it is an upgraded version of the 59. It preserves the 59's low body and oval turret cast in a single piece. However, the chassis of the 80 is a new design. Its automotive components use six pairs of medium-diameter weight-bearing wheels and three pairs of wheels to pull the tracks, which has increased the tank's speed and stability. The tank's engine is a V-12 water-cooled turbocharged diesel engine, and its power-to-weight ratio is greater than that of the 69.

The body of the 80 is composed entirely of welded steel, and composite armor can be hung from the forward armor. There is a protective skirt on either side of the body. Protective posts are mounted on the turret, which themselves serve to ward off projectiles at the same time that they can be used for mounting extra armor. Inside the tank there is an automatic fire-extinguishing and explosion-inhibiting system, as well as an NBC protection system.

The main gun is a 105-mm rifled tank gun with a fume extractor and a light alloy heat shield installed on the barrel. The tank uses APFSDS, armor-breaking rounds, armor shattering rounds, and grenades. It also fires every type of projectile fired by NATO tanks with a gun of the same caliber. The tank carries 44 projectiles.

The fire-control system of the 80 is a light-projecting rudimentary fire-control system. The system's components include a laser rangefinder, a ballistic computer, and a compound two-way stabilizer, all of which have cut to only 10 seconds the time elapsed from discovery and tracking of a target to the aiming and firing of a projectile. This is quicker than the response time of a 69, and accuracy has been increased. In addition, this system also employs a first- or second-generation low-light image-intensified aiming device which can spot enemies under the moonlight or starlight with no additional source of light. This has improved the tank's capability for camouflaging itself during nighttime operations.

The combat weight of the 80 II is greater by one-half ton than the 80. The main difference is in radio communications equipment; the 80 is equipped with an 889 radio and a VIC-8 intercom system, while the 80 II has a VRC-83 radio station.

The 85 II MBT is a modified version of the 80. It was developed to meet the needs of the Chinese Communist Army. Firing tests were performed in 1989.

The 85 II differs from other tanks developed and manufactured by the Chinese Communists in that it abandons the oval, single-piece turret of the Soviet-built T-54, using instead a welded structure and compound armor, which has improved the tank's defenses against bombs. Furthermore, it is easier to install extra armor on a welded turret, which helps to increase its survivability. The tank's combat weight is 39 tons, slightly greater than that of the 80.

The armament of the 85 II and the 80 is the same. Both have a 105-mm high initial velocity rifled tank gun, but the 85 II carries 46 projectiles, which is slightly more than the 80. A new fire-control system—the ISFCS-212 image-stabilized fire-control system. Both accuracy and response speed of this system are higher than for the light-projecting rudimentary fire-control system employed by the 80. This system enables the tank to attack while on the move, and it shaves six seconds off elapsed time between discovery of a target to execution of a strike.

The main difference between the 85 IIA and the 85 II, according to available information, is that the 85 IIA is heavier (its combat weight is 39.5 tons), slightly shorter, and carries fewer projectiles (44).

The 85 II is still in the development stage, but there is a great possibility that it will follow upon the 69/79 tanks as the next generation of MBT's.

### The Type 62 Light Tank

Within China's borders, there is a lot of hilly terrain, which is especially appropriate for light tanks. It is no doubt for this reason that the Chinese Communists developed a light tank in the early 1960's called the 62 with which its forces have been equipped.

The external appearance of the 62 is strikingly similar to that of the 59. In reality, the 62 is a scaled-down version of the 59. There were several advantages for the Chinese Communists, who lacked a strong industrial base, in designing a tank in this manner. First, it reduced the risks that accompany the development of a completely new tank, shortened the period required for research and development, and enabled the tank to enter into service at an earlier date. Second, it reduced the cost of research and development. However you look at it, though, the 62 was the first tank that the Chinese Communists designed and manufactured without any foreign assistance which entered service in its armed forces.

The main difference between the 62 and the 59 is that the 62 has an 85-mm rifled tank gun which can fire armor-piercing rounds, armor-breaking rounds, and grenades. The 62 has narrower tracks, and the dual weight-bearing wheels of the 59 have been replaced with single weight-bearing wheels. The combat weight of the tank has been reduced to 21 tons.

The interior of the 62 is narrower and it does not have NBC defenses. The crew tires easily and thus cannot engage in extended operations.

In 1979, the Chinese Communist Army's 62 took part in the Sino-Vietnamese war and served as the MBT there. In that same year, Tanzania's Army used the 62 to invade Uganda and send the "crazy" President Amin into exile. The Chinese Communists have also provided the 62, in the form of military aid, to North Korea, North Vietnam, Zaire, and Cambodia.

In the late 1970's, the Chinese Communists developed a "new type of round" for the 62. It could possibly be an APFSDS. This round was used in actual combat during the Sino-Vietnamese war. In the mid-1980's, the Chinese Communists mounted protective posts on either side of the turret, armored skirts on either side of the body, and added a shield to the antiaircraft machine gun to enhance the 62's defenses.

### Amphibious Tanks—the 60 and the 63

In the late 1960's, the Soviet Union supplied China with some PT-76 amphibious tanks, and the Chinese Communists obtained the technology that allowed them to build copies on its own. It designated this tank the 60, but the 60 never went into batch production. Later, the Chinese Communists slightly upgraded the PT-76 by switching to an oval turret and equipping the tank with the same 85-mm rifled tank gun used on the 62. This tank went into batch production around 1963 and was designated the 63. The 63 has stronger firepower than the PT-76 and its body is larger. The Chinese Communists supplied the 63 to North Vietnam during the Vietnam war. The 63 is now primary equipment for the Chinese Communist Marines, and its fire-control system has been upgraded, but it still lacks NBC defenses, so it cannot be considered an armored weapon suitable for use on a modern battlefield.

**Tanks Developed by the Chinese Communists**

Type	Class	Combat Weight (tons)	Engine Horsepower	Power-to-Weight Ratio (horsepower/tons)	Maximum Speed (km/hour)	Main Gun	Effective Firing Range (km)	Number of Projectiles Carried
Te 34	Medium tank	32	500	15.6	55	85-mm rifled barrel	900	56
59	MBT	36	520	14.44	45	100-mm rifled barrel	1070	34
Modified 59	MBT	36.5	520	14.25	45	105-mm rifled barrel	1850	34
69 I	MBT	36.5	580	15.89	50	100-mm rifled barrel	1736	44
69 II	MBT	36.5	580	15.89	50	100-mm rifled barrel		44
69 III	MBT	36.5	580	15.89	50	105-mm rifled barrel	1850	
79	MBT	37.5			50	105-mm rifled barrel	1,850	
80	MBT	38	730	19.21	57	105-mm rifled barrel	1,850	44
80 II	MBT	38.5	730	18.96	57	105-mm rifled barrel	1,850	44
85 II	MBT	39	730	18.72	57	105-mm rifled barrel	1,850	46
85 IIA	MBT	39.5	730	18.48	57	105-mm rifled barrel	1,850	44
62	Light tank	21	380	18.10	60	85-mm rifled barrel	950	47
60	Amphibious tank	14	240	17.30	44	76-mm rifled barrel	650	40
63	Amphibious tank	18	400	22.22	64	85-mm rifled barrel	950	47

## EAST REGION

**Jiangsu Journal Comments on Party-Masses Relations**

90CM0308A Nanjing QUNZHONG [THE MASSES]  
in Chinese No 6, 5 Jun 90 p 1

[Commentator's article: "Use the Spirit of the Rectification To Learn and Thoroughly Implement the Resolution of the Sixth Plenary Session of the 13th CPC Central Committee"]

[Text] The resolution passed by the Sixth Plenary Session of the 13th CPC Central Committee to strengthen the relationship between the party and the masses is a key document in Marxist thought. Now the question facing the party organization at all levels is how to learn well from the resolution and implement it thoroughly and well. Here are four "how not to's": 1) It is not desirable to make a general appeal. There must be real results or we will not satisfy a resolution that had gone through small conference discussions and a conference-wide passage. 2) We cannot consider the issue as it stands and simplify something that is a fundamental party-building problem, avoiding deep comprehension and not taking it seriously. 3) We cannot use formalism with more form than substance and use superficial prose for a dog-and-pony show. 4) It cannot be as a sudden gust of wind. We cannot use the viewpoint of the masses and the road to the masses for our special gain and interest. The proper way is to use the spirit of rectification in learning from and thoroughly implementing the resolution.

The mere mention of the spirit of rectification in this endeavor arouses some speculation and suspicion among some of our comrades. This is due to lack of understanding by some comrades of what the spirit of rectification basically means or to lack of recognition of its basic quality. We know that using rectification to build the party has been a successful work of our party. The Yanan rectification is a shining example in our party history. Those comrades who had participated in it understand deeply that it was the blast furnace that forged us and the learning school that let us truly discard the petit bourgeois world to become a worldly revolutionary fighter for the proletariat. They deeply regard the Yanan rectification as a "sweet spring" or "sacred flame."

To continue and promote this glorious tradition, we must use the spirit of rectification in earnestly exercising party discipline and control and having the scientific attitude of seeking truth from facts.

**Thoroughly and seriously carry out the requirements of ideological education.** Why is it that, compared to the war years, some of our comrades do not regard the relationship with the masses as important or pressing? One of the basic problems here is that the party has become lax in education in this area. So now we must emulate the Marxist movement at the time of Yanan and intensively and extensively proceed with ideological reeducation on

relationship with the masses and the road to the masses. This education must clearly define the boundary line between materialism and idealism, give solid root to the Marxist mass viewpoint, solidly emphasize the concept of public service, and from that thought make the impression that the party is inseparable from the masses and the masses from the party, and thus become aware that the relationship is of that between the fish and water and between flesh and blood.

**Take up the weapons of criticism and self-criticism.** The Sixth Plenary Session resolution provided clear demands and concrete measures to strengthen the relationship between the party and masses. We must progressively compare and apply, making certain nothing is done carelessly. Every party member, especially leadership cadres at every level, must use self-awareness and pick up the weapons of criticism and self-criticism to compare and see how short we are of the requirements of the resolution, and resolutely overcome the shortcomings that created detachment from the masses. At present, criticism and self-criticism have not made much progress among some party organizations and among quite a few members. This is precisely one of the major reasons that the disease of alienation from the masses has been nurtured and grown. Therefore, there must be a determination to maintain the party position and engage in criticism and self-criticism of instances of alienation from the masses either on our part or on the part of others and to sweep away the bad atmosphere and develop good conduct.

**Promote a spirit of dealing with concrete issues.** The strengthening of the party-masses relationship cannot be simply mouthed, but must be real. Doing one's utmost to work on real matters is a breakthrough point in application of the resolution and is a basic road for strengthening the flesh-and-blood relationship. There are many concrete matters that need tending; we must concentrate on those that most concern the masses and that have conditions conducive to completion. There is a song that says it well: "The party is a good leader of the people. It talks a good talk, and makes good its talk, it serves the people with all its will and power." We must mean what we say and do what we mean to win the confidence and support of the people. We must never change our basic principle of serving the people without qualification or hesitation!

**Resolutely learn from the past, cure the ailment, and save the patient.** Using the spirit of rectification is not starting some movement, but neither is it something to be regarded off-handedly. We must attach great significance to the fact that there are many of our party who are truly separated from the masses, some to a severe degree. Therefore, we must use the spirit of rectification to correct the past and to suppress improper conduct. Otherwise, we will not have the confidence of the people. And we will not be able to make full use of the activism of the masses. The way is to criticize those who have left the masses, help them, save them, so that they can



correct their individual relationship with the masses and work relentlessly for the masses.

The resolution has been officially proclaimed and has met enthusiastic response from the masses who have placed earnest expectation upon it. We must never forget that to solve the relationship problem we must rely upon the masses, and the party at every level must have a high sense of political and historical responsibility and rely upon the masses in making this wonderful Marxist document a living reality, obtaining shining progress in party-masses relations.

### **Jiangsu Rural Ideological, Political Work Discussed**

90CM0308B Nanjing QUNZHONG [THE MASSES]  
in Chinese No 6, 5 Jun 90 p 29

[Article by Zheng Liangyu (6774 5328 3768), secretary of the Xuzhou CPC Committee: "Several Questions Concerning Ideological, Political Work in Rural Areas"]

[Text] As with management in other work, rural ideological and political thought have some basic work foundations. If the foundation is weak, it could destroy achievements piecemeal; run now tightly, now loosely, creates all kinds of problems. In order to strengthen rural ideological and political work, the foundation must first be firmed up; otherwise, it will not work no matter what magic formula the higher echelons possess. I believe that there are four areas that need to be built up:

1. Firm establishment of basic-level party organization. To do this, one must select a good branch secretary and a good team. What kind of people should be chosen? I think they must meet these requirements: First, resolute adherence to the four basic principles, resolutely fixed in a correct political direction; second, leadership and organizational capability to develop commodity economy; third, a selfless spirit of service; and fourth, a willing attitude to endure hardship in the struggle to achieve results for the masses. Of course, it may not be easy to achieve all these, but we must strive in this direction.

2. Firm buildup of manpower. From the situation at Xuzhou, the focal point for strengthening rural ideological and political work is at the village level. The core of this is the party member. A party member who devotes everything to serve the people has a catching power that can be the most convincing factor. Aside from personal example, verbal exhortation is also up to the party member. A prerequisite of full functioning is the galvanizing of the village cadre, the Communist Youth League, the Women's Federation, the militia, and the self-governing organizations of the masses. The most important current mission in building up the rural political work force is the full use of party members as a basis for gradually forming a force that will complement each other in education, propaganda, and arts and letters, either as primary or additional duties.

3. Establish a good system. Many of the basic-level party organizations have accumulated much valuable experience; for example, an ideological and political work responsibility system; party member household liaison system; party member area of responsibility system, and various evaluation and testing, reward and punishment systems, and so on. These are all good prescriptions and must be maintained, and also must be constantly summarized and improved upon.

4. Securing good positions. This mainly is selecting and creating good broadcasting, cultural stations, party schools, political schools, peasant activity rooms, libraries, youth reading clubs, and so forth. Only by securing these visible positions can invisible positions be secured.

### **Principles and Methods in Rural Ideological and Political Work**

From the facts of recent years, principles of rural ideological and political work may be categorized into four:

First is the principle of democratic equality, two-way flow. This is at one and the same time traditional and a new creation. During the period of democratic revolution, Comrade Mao Zedong proposed the idea of officers teaching soldiers, soldiers teaching officers, officers teaching officers, and soldiers teaching soldiers. Education is reciprocal; therefore, one must respect and follow the principle of democratic equality and reciprocity. Second is sticking to reality, being reasonable and convincing people through reason. In such work, one cannot force one's ideas on another. Otherwise, the other might express agreement but be defiant inside. If the leadership and the political work cadres are avoided or kept at a respectful distance, how can things get done? There must be sincere conviction through reasoning and facing the facts. If there is conviction, then there is power to fight and ability to spread the ideas. Third is to respect and to understand people, and to be concerned about them. Without this, such work will be hard pressed to find an opening. One must pay special attention to this in proceeding with youth education. Fourth is the principle of proceeding in turn by level. Ideological and political work cannot be a mish-mash of a single pot of stew. The masses are a complex entity, standards of culture and ethics as well as of states of thought are not uniform. Therefore, work must be done in stages in turn at each level. There must be different requirements for different levels and work must proceed with variable targets.

As to methodology, there could be seven combinations: Ideological and political work with economic work; solving ideological problems with solving factual problems; ideological and political work with improved service organization systems to improve service; progressive examples of teaching with the masses' self-education process; spoon-fed education with informal individual homey talks with dredge-like education; systematic basic

education with real-world education which has contemporary topics as its core; and ideological education with cultural enjoyment activities.

## CENTRAL-SOUTH REGION

### Guangdong Leadership Changes Ascribed to Power Struggle

90CM0282A Hong Kong KAIFENG [OPEN] in Chinese  
No 42, 15 Jun 90 pp 22-23

[Article by Chang Chuan (1603 1557): "The Local-Central Power Struggle in the CPC Is Focused on the Covert and Mysterious Personnel Changes in Guangdong Province"]

[Text] Beijing Was the Source of the Mysterious Personnel Changes in Guangdong Province

The confusion over the disposition of personnel in Guangdong Province, which had lasted for more than six months, finally ended when the curtain came down on the Third Session of the Seventh Guangdong Provincial People's Congress on 17 May 1990. The outcome took outsiders very much by surprise because none of the most expected personnel changes occurred. Only one personnel change was made during the entire session, that is, Luo Tian [5012 1131], chairman of the Standing Committee of the Guangdong Provincial People's Congress, resigned, and Lin Ruo [2651 5387], secretary of the Guangdong Provincial CPC Committee, was elected to replace him and hold the post concurrently.

When I went recently to Guangzhou to seek answers to the mystery from a friend who works as a cadre in the Guangdong Provincial CPC Committee, he said even more mysteriously that Beijing, not Guangdong, was the source of the mysterious personnel changes in Guangdong. He said that, although the central government had certainly planned to make major personnel changes in Guangdong originally, the inside story was extraordinarily complex, and the changes were not made now because Deng Xiaoping had set the keynote for central government personnel changes at the beginning of 1990, requiring relative stability instead of major changes in the leadership. As this had been the outcome of the NPC [National People's Congress], the Guangdong Provincial People's Congress was forced to follow suit. He said, moreover, that the election was merely for the sake of appearance, because nothing was decided by Guangdong. Lin Ruo also vented his anger about this. When asked by a reporter at the conclusion of the Guangdong Provincial People's Congress if his taking the post of chairman of the Standing Committee of the Guangdong Provincial People's Congress meant that there would be a succession of personnel changes in the Guangdong leadership, Lin Ruo replied "This is very hard to say because it depends on the central government. Changes are made or not as the central government decides."

In which case, where exactly is the mystery?

### The Abundance of Rumors Certainly Did Not Come From Nowhere

There have been many rumors in the last six months about personnel changes in Guangdong Province. The earliest one, at the end of 1989, was that Guangdong Governor Ye Xuanping [5509 6693 1627], was going to be promoted to vice premier of the central government, and Lin Ruo was going to retire because he had just reached retirement age. Then it was rumored at the beginning of 1990 that Ye Xuanping had refused to "hang himself" (be promoted), and was desperately determined to stay in Guangdong.

The rumor of a few months ago that Mr. Yuan Mu [5913 2606], the CPC's hatchet man, was going to be assigned as governor of Guangdong, was later changed to one that Jiangxi Governor Wu Guanzheng [0702 1351 2973] was coming south to take up this post. By the time the Guangdong Provincial People's Congress was about to convene at the beginning of March, it was again rumored that Guangdong personnel were going to be used in Guangdong Province, with former deputy secretary of the Guangdong CPC Committee Xie Fei [6200 7236] replacing Lin Ruo as secretary of the Guangdong Provincial CPC Committee, and Guangzhou Municipal CPC Committee Secretary Zhu Senlin [2612 2773 2651] replacing Ye Xuanping as governor. The outcome was that it was announced that the Guangdong Provincial People's Congress would be postponed until after the conclusion of the NPC at the end of March or the beginning of April.

When I passed through Guangzhou early in March, my above-mentioned friend who works as a cadre in the Guangdong Provincial CPC Committee, told me that, in fact, the many rumors certainly did not come from nowhere and, while there were certain rumors that people from Guangdong knew about, other news which was unknown in Guangdong went from Beijing directly to Hong Kong, which was more familiar with the rumored personnel changes in Guangdong than was Guangzhou. He also told me that the central government had acceded to Ye Xuanping's clear refusal to go to Beijing, that the matter of personnel changes in Guangdong had been decided, and that Ye Xuanping was going to replace Lin Ruo as secretary of the Guangdong Provincial CPC Committee, Lin Ruo was going to replace Luo Tian as chairman of the Standing Committee of the Guangdong Provincial People's Congress, and the vacant position of governor of Guangdong was going to be filled by Hainan Governor Liu Jianfeng [0491 0494 6912]. It was further rumored that Guangzhou Vice Mayor Lei Yu [7191 1342] was going to succeed Liu Jianfeng as governor of Hainan Province.

### A False Alarm—Ms. Zhang Guoying's Reassignment to Guangdong

My friend, the cadre in the Guangdong Provincial CPC Committee, thought that since the government of Guangdong run in recent years by Lin Ruo, a political conservative, and Ye Xuanping, an economic reformer,

was the best combination for "Chinese-style" reform and an "extraordinarily stable" structure during the incumbencies of CPC Central Committee general secretaries Hu Yaobang and Zhao Ziyang, it was unexpected that the sudden "4 June" incident would break up this nationally unique team.

At that time, the Hong Kong media thought that the first step in Guangdong's personnel changes was the reassignment of former vice chairwoman of the All-China Women's Federation [ACWF] Zhang Guoying [1728 1613 5391] from Beijing to Guangdong as deputy secretary of the Guangdong Provincial CPC Committee. As Ms. Zhang was a cadre who was well-trusted by the central government, it was thought that the next step after reassigning her to Guangdong would be to have her succeed either Lin Ruo or Ye Xuanping. I asked my friend's view on this matter.

He said that the sudden reassignment of Zhang Guoying from Beijing to Guangdong had set off a false alarm among ordinary cadres in Guangdong. As Zhang Guoying had matured as a cadre during the Cultural Revolution, and the highest position that she had held in Guangdong before being promoted to the Central Committee was deputy secretary of the Huiyang Prefectural CPC Committee, cadres in Guangdong had never heard of her having had any particular official career achievements.

When Kang Keqing [1660 0344 3237] (Zhu De's wife), then chairwoman of the ACWF, and Deng Yingchao [6772 4481 6389] (Zhou Enlai's wife) went on an inspection tour of Huiyang in 1982, the eager attentiveness of Zhang Guoying, who was given the responsibility of receiving them, won much favor from these two veterans from the world of women, who moved that she be promoted to the central government. After being elected to the posts of vice chairwoman of the Fifth Executive Committee of the ACWF and first secretary of the ACWF Secretariat in 1983, Zhang Guoying was then promoted to be a member of the CPC Central Committee. However this woman's basic incompetence and reliance on the power and influence of Kang Keqing to hold down a job in Beijing without doing a stroke of work was very much looked down upon by her fellow officials. The total lack of improvement in her work in the last more than six years, had left her completely pushed aside by Beijing's female leaders, the best and even the worst of whom had complained about her. Moreover, her husband (a retired department-level cadre in Guangdong) who refused to move to Beijing, felt snubbed and asked that she be reassigned to Guangdong. Thus, her reassignment to Guangdong certainly held no mystery and, according to a CPC official, "was a normal transfer."

#### **Ye Xuanping Trusts Only History, Not the CPC**

There were both long-range and immediate factors involved in the original plan of the central government butchers of Beijing to get rid of the team of Lin Ruo and

Ye Xuanping. The immediate factor, their approach to the "4 June" incident, was of course the major one. This was why the CPC first got rid of Hainan Governor Liang Xiang [2733 3276], because he, after all, had a shallow power base and had also given the Deng-Li-Yang faction many handles to use against him.

In which case, had not Lin Ruo and Ye Xuanping also given the butchers of Beijing handles to use against them? Yes, they had, but they also held many trump cards, which forced Beijing to spare them to save their own skins.

It seems that Beijing is afraid to take Guangdong to account. Zhao Ziyang's faction has a deep-rooted influence in southern Guangdong, and the special policies which have been in effect there for many years have given Guangdong such a powerful economy that it can afford to be disdainful of others. Not only is Guangdong so powerful, but not one of its important party, government, or military officials can be counted in the Deng-Li-Yang faction. Guangdong's role in the democracy movement was even less approved of. Ye Xuanping, who was visiting Macao at the height of the student movement, candidly replied to a reporter's question that there was a lack of communication between domestic political forces and public opinion. While the CPC was refusing to hold a dialogue with the students, Ye Xuanping was not making his implications clear.

At the meeting of Guangdong organs to transmit the announcement that the hardliners had won and Zhao's faction had lost at the general meeting of party, government, and military officials on 19 May 1990, while Secretary Lin Ruo was slow to express himself, Governor Ye Xuanping spoke out freely. He said at the meeting, "I will let history pass the verdict on this incident, because the overall situation in Guangdong is stable." He even ventured to quote the political farewell speech given by Zhao Ziyang on his visit to the hunger striking students as he was about to lose power, saying that "Comrade Zhao Ziyang has said that the situation is very complicated..."

Such daring by Ye Xuanping to "stroke the tiger's whiskers," naturally showed that he was secure in the knowledge that he had strong backing. First, he did not belong to any of the current factions. Although the situation in the central government was complicated and confusing, with mutual arm-twisting, a major figure about to be pulled down, who would be appointed to replace him being beyond anyone's reach, all factions being required to reach a common understanding, and united efforts being required to achieve anything, Ye Xuanping was still able to keep his distance from all factions and pay attention to his own business. In addition, Ye Xuanping's brilliant political achievements in governing Guangdong were obvious and his pragmatic work style was spoken of approvingly by everyone throughout the PRC. Not many CPC officials had been able to acquire this kind of political capital.

It has been rumored that Ye Xuanping generally looks down on Li Peng as a low-ranking comrade who studied in the Soviet Union and that he wonders how one with such publicly acknowledged limited intellectual and business capabilities and lack of character and ability could be capable of filling such an important post as premier. It has certainly been hard for high-ranking officials from various provinces to sincerely acknowledge the leadership of Jiang Zemin, who was "draped with the imperial robes only by his supporters." Jiang Zemin, who came from the same rank and generation as Ye Xuanping, certainly had no outstanding official career achievements, had even put Shanghai's economic growth into zero or negative growth for a time, and had also enjoyed less popular support in Shanghai than Mayor Zhu Rongji [2612 6954 1015]. General Secretary Jiang is impatient to promote his own image with foreign reporters, is good at speaking monologues of foreign languages and full of flourishes in showing off his knowledge, goes too far, which is as bad as not going far enough, and is full of a superficially clever "Shanghai style" (generally characterized by going after the fashion of the day).

By comparison with either Li Peng or Jiang Zemin, the pragmatic and capable Ye Xuanping is obviously more popular. The news is that Governor Ye was invited three times to go to Beijing, and was promised the job of vice premier. Some say he was invited to Beijing to weaken his influence in Guangdong, and others say that it was to enhance the leadership's moderate image. However, neither Ye's political inclinations nor his economic ideology were in line with those of Li Peng or Yao Yilin [1202 0181 2651]. It is no wonder that Ye Xuanping repeatedly refused to leave Guangdong when he seems to have struck such a pose.

#### **Lin Ruo Was Lucky Even Though He Expressed the Wrong Feelings**

Guangdong Provincial CPC Committee Secretary Lin Ruo has always been a left-leaning conservative who, during the "campaign against bourgeois liberalization" in 1987, not only followed orders, but also participated enthusiastically. He took an uncharacteristically dispirited and low-key approach this time, and it was revealed by his secretary that after Zhao's fall from power Lin Ruo was dumbstruck and repeatedly mumbled "How unexpected, how unexpected..." When high-ranking officials from all areas were rushing to leave the discordant capital of Beijing at the conclusion of the Fourth Plenary Session of the 13th CPC Central Committee, Lin Ruo alone was kept there for two days of admonishment. He vindicated Zhao to the leadership by saying that "we should not substitute emotions for principles," little realizing how basically questionable this was.

Moreover, if this cataclysm had not occurred, although Lin Ruo had planned to retire in 1990, and it had been

decided at the higher level but not officially announced that he would be succeeded by Guangdong Provincial CPC Committee Deputy Secretary Xie Fei, he was unexpectedly lucky and kept his job. This was because the eventual discovery by the cadre investigation group (which was specially sent by the central government to Guangdong after "4 June" to interrogate all Standing Committee members with the back-to-back "Cultural Revolution"-style method about the stand they had taken during the 1989 democracy movement) that Xie Fei's actions and statements had been sympathetic to the democracy movement, was precisely the handle needed by the higher authorities in Beijing to "rectify" Guangdong officials.

#### **There Is a Difference of Opinion in Zhongnanhai Over Guangdong Officials**

Since the end of 1989, a succession of important central government officials, such as diehard conservatives Li Peng, Song Ping, and Li Tieying, and moderate conservatives Jiang Zemin and Li Ruihuan, have visited Guangdong with the purpose of making an issue of Guangdong officials.

A cadre in Guangzhou said that Li Peng's faction hated Guangdong officials with a passion, including both recent and longstanding grievances. Their recent grievance was that Guangdong officials at all levels had opposed them by sympathizing with and supporting the democracy movement. Their longstanding grievance was that most all of Guangdong's methods of reform and opening up to the outside world in recent years had conflicted with their conservative economic ideology. In particular, they terribly disliked the approach of Guangdong cadres toward central government policies of "speeding up at yellow lights and detouring around red ones." They wanted to make a big change in the makeup of the Guangdong leadership, replace it with their own extremists, and punish the forces in Zhao's faction and in Guangdong.

Although the Jiang Zemin and Li Ruihuan faction was obviously unwilling to hand over Guangdong to Li Peng on a silver platter, their recent and still shaky standing in the central government made it impossible for them to send their own cadres to Guangdong to take a hand in things. Therefore, they did their best to placate Guangdong, and tried to counter Li Peng's gang by lending a hand to the three major windows to the outside world and their bases of economic strength in Guangdong, Shanghai, and Tianjin.

Although it is certainly a mystery that the confusion over the disposition of personnel in Guangdong, which had lasted for more than six months and was so outstanding, has ended up like this, it is only a temporary phenomenon. In light of the continuing power struggle in the central government, the final outcome of the disposition of personnel in Guangdong is still hard to foresee.



### **Taiwan Economic Model Seen Unsuitable for Mainland**

90CE0209A Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 16, 16 Apr 90  
pp 25-26

[Article by Yin Tsun-yi (3009 1317 3015): "How To View the Taiwan Economy"]

[Text] Taiwan has made accomplishments in economic development that have attracted world attention. While as compatriots, we are gratified by Taiwan's accomplishments in economic development, we should conscientiously analyze the reasons for Taiwan's economic development and try to understand and evaluate Taiwan's economy objectively by seeking truth from the facts.

#### **How Did Taiwan's Economy Develop?**

In 1952 Taiwan's per capita GNP was only about \$196, but in 1989 it had reached \$7,518, a 38-fold increase in 37 years; the gross volume of foreign trade grew from \$303 million in 1952 to over \$110 billion in 1989, a 363-fold increase in 37 years; foreign exchange reserves grew from \$2.2 billion in 1976 to \$75 billion in 1989, a more than 33-fold increase in 13 years. From this economic data we can see that the growth rate of Taiwan's economy in the past 40 years has been very rapid.

The rapid development of Taiwan's economy is intimately related to the following:

**Taiwan's economy has a good foundation.** Early in the Japanese occupation, the Japanese colonialists invested a great deal in Taiwan the better to rule Taiwan politically and exploit Taiwan economically. They built a great many basic facilities for economic construction, such as reservoirs, power plants, and a communications and transportation network. During the forties most Taiwan rural areas and towns had electric power and postal facilities, agricultural water conservancy and irrigation networks were basically completed, and the literacy rate for the masses was over 50 percent. During the early period, the Japanese colonialists promoted the colonialist policy of "agricultural Taiwan, industrial Japan," making agriculture the emphasis in Taiwan's economic development. In the light of the strategic demands of international expansion, beginning in the late thirties Japan began to promote an industrialization policy on Taiwan and introduced such manufacturing industries as steel, machinery, chemicals and cement and laid a foundation for Taiwan's industry. These all objectively laid a good foundation for development of Taiwan's economy. Some scholars abroad said: "The foundation of Taiwan's (economic) prosperity was established during Japan's colonial rule." This is not without some foundation.

**The special international environment has given a major "transfusion" to Taiwan's economy.** During the fifties,

the Eastern and Western camps were in a sharply contradictory cold war. The Western countries, led by the United States, were extremely hostile to new socialist China. In addition to "containing" and isolating New China economically, they actively supported the KMT [Kuomintang] regime overthrown by the Chinese people and made Taiwan an anti-communist base in the Far East. In 1951-1968 the United States provided Taiwan with \$1.48 billion in economic assistance for this purpose. In terms of Taiwan's population at the time, Taiwanese received \$187 per capita. Massive U.S. aid had a vast and long-range impact on the recovery and development of Taiwan's economy. From 1951 to 1965, U.S. aid made up 34 percent of Taiwan's total investment. Roughly half the agricultural investment and about 74 percent of capital construction investment came from U.S. aid. In addition, the United States and other Western countries also supported Taiwan's economy in many forms, such as low interest loans, direct investment, technological transfers, and market preferences. Some Taiwan economic officials also have to admit that without economic technological cooperation and support of such countries as the United States and Japan, "Taiwan's economic development would be at least twenty to thirty years behind the present."

**The excellent opportunities of Taiwan's economic development.** After the Second World War, Taiwan capitalized on Western countries' general shortage of articles for daily at the time and the fact that low technology industries were in decline in the United States to vigorously expand labor-intensive export processing industries. The United States' two aggressive wars in Korea and Vietnam in the fifties and sixties made Taiwan, which was a rear echelon supply base for the U.S. military, get rich from the wars. In addition, the sixties was a "golden age" for Western capitalist development and the Taiwan economy, which became part of the capitalist economic system, naturally reaped no little benefit in the generally favorable climate of the capitalist economy.

**Some directions and policies of the Taiwan authorities had the objective result of promoting economic development.** After the KMT regime retreated to Taiwan, they devoted all their energies to stabilizing the social order to protect their last bit of ground. Politically, they promoted "martial law," and enforced it for 35 years, creating a political situation that was highly totalitarian and that [seemed] to be on the brink of war. The objective effect of this was to provide a stable social environment for the development of Taiwan's economy and economic directions and policies were implemented smoothly. Economically, they enunciated a guiding ideology of "seeking maturity in stability," which viewed control of currency and stable prices as equally important, so that for a long time Taiwan's economic development has been steady. In addition, they implemented some policies favoring economic development: "land reform," implemented in the early fifties; and foreign

exchange trade reform, implemented in the sixties, centered on expanding exports and based on the world trade situation; this had far-reaching impact.

**The painstaking work of Taiwan's industrial and commercial circles.** Because of its special political standing and its inherent shortage of natural resources, Taiwan's masses were generally inured to suffering. This was converted into a powerful competitive awareness in economic activity. The flexible administration and strong competitiveness of most of Taiwan's enterprises gave Taiwan's export processing industries a strong competitive ability in the international market.

These elements of Taiwan's economic development demonstrate that the development of Taiwan's economy was definitely based upon following a historical development course. It was not achieved overnight as some have said. Taiwan's economic development is inseparable from the vigorous support of Western countries. The notion that "Taiwan's economic take-off after 1963 was achieved almost entirely on its own strength," does not conform to historical facts. Of course, the efforts made by Taiwan's authorities and the masses cannot be denied either.

#### Will the "Taiwan Experience" Work Elsewhere?

The rate of a country or region's economic development is intimately related to the existing foundation. On the one hand, Taiwan and many developing countries and regions share many indisputable elements. Take, for example, the economic foundation of Taiwan and the mainland in the early fifties. According to relevant statistics, Taiwan's per capita output in 1952 in such areas as food, electric power, cotton, coal, steel and cement was 467.4 kg, 177.4 kWh, 11 meters, 285.6 kg, 2.2 kg, and 55.7 kg, respectively. For the mainland the figures were 285 kg, 12.6 kWh, 6.7 meters, 115.6 kg, 2.4 kg and 5 kg, respectively. Except for steel, in terms of the above basic indices of the level of economic development, Taiwan's foundation was better than the mainland's. If we then take into account such soft environments as transportation and education, which cannot be expressed in per capita terms, Taiwan's overall economic foundation was higher than the mainland's. In the early fifties, very few developing countries and regions were at a level below that of the mainland's economy. **In view of this historical fact, simply to speak of the "experience" of Taiwan's economic development on the basis of the existing economic level is clearly unscientific.**

Most developing countries and regions have never had, and will probably never have, the favorable conditions of external aid enjoyed in Taiwan's economic development. There are major changes in the international situation now compared to the fifties and sixties. For this reason, it will probably be very difficult for any developing country or region to be able to play the role of Taiwan in the fifties and get "special treatment" from Western countries. The changes economically show that in the past ten years the economies of the Western

countries have weakened increasingly and their absolute superiority in the international market has gradually declined. The United States, which is the locomotive of the Western economic train, is no longer what it was. The budget deficit and the trade deficit are astronomical. The limited financial resources of Western countries make it very difficult to provide enormous amounts of capital to help others. In addition, Western countries are once again resorting to trade protectionism and they are unwilling to support any country vigorously in terms of capital and markets so as to avoid nurturing more competitors. On the other hand, no Third World country or region can have the opportunities enjoyed by Taiwan. **Therefore, Taiwan's economy is a product of the times and as the times change, Taiwan's economy will not serve as an example.**

Naturally, in the economic development process, Taiwan also had some experiences which others, especially developing countries and regions, might borrow. For example, such strategies as the guiding thinking of "seeking maturation in stability" and quickly adjusting foreign exchange and trading policy in order to utilize the world market better.

#### Puzzles Facing the Taiwan Economy

When evaluating the Taiwan economy we must also note the fact that although Taiwan's economy has developed at a rapid rate, there are still many problems and all is not perfect. The primary problems facing Taiwan's economy are:

**1. The economy's external reliance is too great.** Taiwan's economy relies primarily on export processing industries. Foreign trade makes up about 90 percent of GNP; that is, Taiwan's economy relies primarily on expansion of foreign markets to improve its scale and level. Its product exports rely primarily on the U.S. market, and it relies on Japanese market for imports of raw materials and components. Generally speaking, for a region like Taiwan, which lacks abundant raw materials and a large domestic market, the degree of foreign economic dependence is greater than that of other countries and regions. But Taiwan's current degree of foreign dependence is not only the result of objective factors. There are also many man-made causes. In the process of accelerating expansion of exports, Taiwan was too eager for quick profits and created a misalignment of middling and backward industries. Being able only to rely on large volume imports of middling products to satisfy the constantly expanding needs of the processing industry increased the degree of the economy's foreign reliance. In this way, once the international situation changes dramatically, the consequences can readily be imagined. It must be said that this is a major anxiety of Taiwan's economy.

**2. Excessive trade balance was unfavorable for economic development.** Some treat Taiwan's \$7.5 billion foreign exchange reserves as a mark of Taiwan's economic accomplishment as if the more foreign exchange

reserves, the better. Actually, this is not the case. Generally speaking, if the foreign exchange reserves of a country or region can only pay for three months of required imports it means that the foreign trade economy is normal. Excessive foreign exchange reserves are not only not necessary, but may play a negative role in economic development. In Taiwan's case, the negative impact of excessive foreign exchange reserves is reflected in two areas: 1) The excessive trade balance, especially the trade balance with the United States, caused Taiwan-U.S. trade friction to become more intense and to shift the trade deficit with Taiwan, the United States eliminated most favored treatment with regard to Taiwan and forced the Taiwan dollar to increase in value. This caused instability in the exchange rate and prices and threatened the growth of Taiwan's export trade. 2) Since Taiwan is basically a private-ownership economy, foreign exchange reserves are not entirely controlled by the authorities. The flood of idle capital among the people put great pressure on the market, and added to the constant increase in value of the Taiwan dollar caused industrialists and businessmen who had special excesses of foreign exchange to dump foreign exchange quickly. To resolve the problem, the Taiwan "Central Bank" issued a great quantity of currency to offset the foreign exchange so that growth rate of the money supply in the last few years reached 40-50 percent. This provoked last year's inflation. The inflation rate reached five percent, exceeding the three percent security line stipulated by the authorities. This gave rise to insecurity in social circles and struck a blow at the investment initiative of entrepreneurs.

**3. Although the rate of Taiwan's economic development is fast, the level of economic development is not high.** Taiwan's economy owes its start to labor-intensive industries and up to the present, whether in terms of industrial structure or technology structure, Taiwan

industry still is primarily labor-intensive, the ability to develop high technology industry is weak and the added value of goods is low. In addition, capital construction is seriously lagging: they are last among the Asian "four little dragons" in terms of transportation and communications facilities, and there is little difference when compared with some developing countries and regions. This is a problem of greatest concern to the Taiwan authorities.

**4. There is little willingness to invest on the island.** Since the early eighties the Taiwan authorities have proposed a development strategy of "industry upgrading" to change Taiwan's low level of economic development, but progress has not been encouraging: entrepreneurs have not had a very high level of enthusiasm for investing in raising the island's industrial level. There are many reasons for this. For example, anxiety about Taiwan's future, the rise of the environmental movement, the increase in labor costs, increasing wage disputes, backwardness of basic facilities, etc. In addition, Taiwan's scientific research and development capacity is relatively weak. Industrial and commercial leaders do not have sufficient confidence in autonomously developing high-tech industry, but prefer to invest in backward countries and regions and continue operating labor-intensive industries or invest in high-tech industries in concert with developed countries, but are unwilling to develop any themselves on the island. Some economic officials and scholars on Taiwan are very concerned about this. They are anxious that Taiwan is moving toward [becoming] "devoid of content." This is another thorny economic problem Taiwan faces.

From these problems we can see that Taiwan authorities are both winning and losing in economic development, that they face many problems, and have not nor cannot provide others with a "Taiwan economic model" that merits comprehensive imitation.

**Profile of New Mayor of Kaohsiung**

90CM0275A Taipei TZULI WANPAO in Chinese  
3 Jun 90 p 2

[Article by Wang Yao-te (3769 5069 1795) and Li Yin-tsang (2621 6892 3318): "Moving in on Kaohsiung, Walking a Tough Road: A Vigorous and Ambitious Appointed Mayor"]

[Text] Wu Tun-yi [0702 2415 5030], who has a crewcut year-round, has progressively advanced from newspaper reporter, city councilman, county magistrate, and municipal party chief, to the appointed mayor of Kaohsiung. He has been all over the country and has made a name for himself. However, can this short-haired political figure go his own road in the harbor city?

Wu Tun-yi is 1.82 meters tall, and he has had a meteoric political career. In each phase of his career there certainly have been valuable friends helping him, but he is himself a shrewd and experienced man, with a clean reputation and a good media image, and his fame is growing.

Wu Tun-yi was born into a farming family in Tsaotun; his father, Wu Hsi [0702 1153], was an elementary school teacher and a district magistrate. People in the district recall that, during the Japanese occupation, Wu Hsi was one of the figures known for his anti-Japanese attitude. When Wu Tun-yi became Nantou County's magistrate, Tsaotun compiled a history of the local area which contained some of Wu Hsi's writings.

Wu Tun-yi was born on 30 January 1948; after attending Hsinchuang Elementary School, he tested into a Taichung middle school, and then advanced directly to high school. He first tested into National Political University and later majored in history at National Taiwan University [NTU]. While at the azalea blossom campus, he became very active in campus activities. He was editor-in-chief and director of TAHSUEH HSINPAO [UNIVERSITY NEWS]; in addition he wrote an article entitled "The National Taiwan University Student's Cross," in which he exhorted NTU students to be concerned about national affairs. When it was reprinted in newspapers and periodicals, it attracted the attention of Chiang Ching-kuo, who was then director of the National Salvation Society. A month later Chiang Ching-kuo, who by then was defense minister, gave a talk on "Planting the roots below, and fruit will grow above" to a special class at Taichung's Ch'eng-kung University; in this talk he referred to "The National Taiwan University Student's Cross." This was the first hint of Wu Tun-yi's coming rise to success.

After graduation, [Wu] served as an officer in the army. At the end of his military service, he was hired as a reporter for the CHUNGKUO SHIPAO [CHINA TIMES] and covered political news. He began to have plans to go into politics. That year the Control Yuan impeached Taipei mayor Kao Yu-shu [7559 3768 2885], and Wu Tun-yi wrote an article entitled "Kao Yu-shu

and the Four Virtues of Propriety, Justice, Honesty, and Sense of Shame," in which he accused Kao Yu-shu of being "improper, unjust, dishonest, and shameless." His article was greatly appreciated by Chou Pai-lien [6650 4102 6937], who was then the vice-president of the Control Yuan (he had [formed] a grudge against Kao during the previous election). In 1973 Chou Pai-lien arranged for Chou Ts'ai-yuan [6650 6299 3293], an elementary school classmate of his, to be Wu Tun-yi's campaign manager in the race for city council. Chou Ts'ai-yuan gave up his own city council seat, and as a result 26-year-old Wu became a city councilman. That year Chang Chun-hung [1728 0193 1347], a fellow NTU student and hometown compatriot, lost the election.

During his second term of office, Wu used his oratorical skills and aptitude for history to mediate disputes in the assembly hall, and he became the convener for the Finance Committee. But he did not forget his roots, and kept up with his home town news by subscribing to a Nantou newspaper; on holidays he would go home to visit his relatives.

In those years, when he was wavering between running for [city council] vice-president and Nantou county magistrate, former mayors Lin Yang-kang [2651 3152 3263] and Lee Teng-hui [2621 4098 6540] both had [high] expectations of him. Finally, Lin Yang-kang told him, "A vice-presidential position does not have as much independence as a city or county magistrate position, which offers more experience." With the powerful assistance of the Kuomintang [KMT], he resolutely descended upon his home territory to do battle with the resurgent political urchin Yang Kuo-p'ing [2799 0948 1627].

In the midst of the election battles that year, opponents accused Wu Tun-yi of plagiarism, because the wording of his leaflets was similar to that used by Chang Chun-hung (a Nantou resident) in provincial assembly elections four years earlier. However, this did not develop into a scandal.

In his first term as county magistrate, he strongly promoted alternative industries, development of a tourist district with connections to the outside world, road construction for industry, tea sales, open office hours every Wednesday for county citizens, and in particular the founding of the Nantou Cultural Center, the first of its kind in the province, which holds all sorts of cultural events. During those years even provincial governor Lee Teng-hui went to participate in the folk singing contest.

Assistance from staff members Lin Wen-cheng [2651 2429 2398] and Wang Kuo-hsiung [3769 0948 7160], a good relationship with the provincial assembly, and communications coordination with county party chief P'an Chung [3382 0112] resulted in the Nantou county government tradition of being a "constructive, conciliatory county" when dealing with local council conflicts and party difficulties.



No one in the party ran against [Wu] during his reelection in 1985; the opposition also knew it did not stand a chance. Wu Tun-yi performed alone on the stage, and he won the highest number of votes in Nantou's history.

During his second term as county magistrate, he had a dispute with president Nien Kuo-hsi [4724 0948 6007]; Nien Kuo-hsi organized meetings of all the county and city magistrates in the province, and every day during dinner meetings he would "charge" Wu Tun-yi with heavy-handed administrative practices. This greatly increased Wu's fame. There was a dispute over budget reviews that was only resolved after Lin Yuan-lang [2651 3293 6745] took office.

At the KMT's 13th Party Congress last year, Wu Tun-yi was not nominated to the Central Committee, but he placed 75th in party delegate balloting, making him a up-and-coming star among the younger contingent.

When people criticized elder National Assembly representatives, Wu Tun-yi, in his position as an administrative leader, reproached them. When there was discontent about the "Number Two Section of the Personnel Department," Wu Tun-yi also publicly burned his "Number Two Section" papers. Even if some people considered this "for show," quite a few [other] people applauded him; one may deduce that he is different from the average bunch of stuffy and conservative city and county magistrates.

While assisting Lin Yuan-lang's election campaign, Wu Tun-yi again demonstrated his administrative neutrality. When the Democratic Progressive Party was "waving the Constitution," he refused to respond by "waving the flag," but he did say one thing: the KMT had been forced to pick up a hoe by the handle in order to defeat people who were wielding swords. Subsequently, Lin Yuan-lang defeated the powerful former provincial assemblyman Ch'en Ch'i-chi [7115 0796 0679].

Wu Tun-yi resigned his position one week, announcing that he was becoming the KMT party boss in Taipei. Just over five months later, he descended on Kaohsiung to become the last of the appointed mayors.

Because he has no contacts whatsoever in Kaohsiung, he would be unable to win a popular election for mayor; [following] the current tide of public opinion, city council members signed a petition opposing the appointment of a mayor (which is not to say they opposed Wu or appointments). As for the urban government's situation, he did not have his Nantou supporters nor the advantage of eight years of innovative administration in Nantou, and so within a year and a half he had to quietly build connections, make friends, and present a smiling face to the city. Those who had high hopes for him felt that he was wasting his youth and throwing away precious time by going to Kaohsiung. The KMT had discarded him, and he was bearing the KMT's cross.

However, Wu Tun-yi has received awards of excellence from both the Executive Yuan and the KMT; he has been honored and given high positions. Without the KMT, how could Wu Tun-yi have become what he was?

Although the sounds of opposition in the Kaohsiung city council have diminished slightly, Wu Tun-yi is under increasing pressure. Aside from the not very reliable Ch'en and Wang clans and a few disorganized regional factions, the only thing he can rely on in Kaohsiung is the KMT; [Kaohsiung's] KMT party boss, Huang Ching-feng [7806 6975 1496], is also an outsider with no connections. Especially since the city council still may be permeated with the "Ch'en T'ien-mao [7115 3944 6931] effect," a rugged road in Kaohsiung will be difficult for Wu Tun-yi to avoid.

But Wu Tun-yi is lucky; he has powerful friends everywhere to help him. At first it was Chiang Ching-kuo and Chou Pai-lien; later it was Lin Yang-kang and Lee Teng-hui; who are his powerful friends in Kaohsiung?

Wu Tun-yi married Ts'ai Ling-yi [5591 0109 1837], a woman from Yilan, at a young age. They have two girls and two boys. One of the boys arrived just last year, in accordance with the Taiwanese proverb, "Marry early, bear sons late." Wu Tun-yi's confidence is written on his face, and his ambition shows clearly in his genuine smile.

#### Editorial Discusses Trade Deficit With Japan

90CE0281A Taipei CHING CHI JIH PAO in Chinese  
6 Jun 90 p 2

[Editorial: "Surmounting the Difficult Economic and Trade Relationship With Japan"]

[Text] Concerns over how our nation is to surmount the difficulties in its economic and trade relations with Japan have once again come to public attention and become a heated topic of conversation. [This is] because of recent estimates that the trade deficit with Japan will grow to \$8 billion, because Japan's government suddenly and unilaterally canceled the 72-hour transit visa waiver for our passengers, and also because, at the press conference following his inauguration, President Li accused Japanese authorities of driving contacts with Japan "to the wall."

It is well known that economic and trade relations between our country and Japan are exceptionally close. Smooth development of the relations will benefit both sides, while frictions and conflicts will be detrimental to all. In reality, although Japan is our largest importer and second largest exporter, we have nonetheless continually run a trade deficit with Japan, and the tendency is for it to progressively increase. For instance, two years ago it was \$6.1 billion, last year it was \$7 billion, and this year it is estimated to increase to \$8 billion. This continued huge trade deficit has been the greatest difficulty in our trade relationship with Japan for many years. With

regard to its substantive effect on our economic development, it is no less serious than our continued huge trade surplus with the United States.

There are quite a few factors contributing to the sustained huge trade deficit with Japan. The most fundamental reason, however, stems from the differences between the two nations' economic development levels and industrial structures, as well as the different trade structures which result from this. For years our nation's economic development has followed the Japanese model. Not only has production technology been largely dependent upon Japan, but raw materials, parts, and mechanical equipment have also come in large part from Japanese imports. Furthermore, in the course of economic development over the past 30 years, we were unable to research and develop our own technology, and thus we have always had to rely on Japanese technology. Consequently the transformation of our industrial structure has been slow and improvement of production structure has been greatly limited, and so far there have been no significant changes with regard to the developmental pattern of relying on Japanese technology, raw materials, parts, processing, and assembly: trade with Japan has thus been expanding. Still, apart from structural trade differences, the ineffective response of our country's economic and trade authorities is a primary reason that the trade deficit with Japan is increasing daily.

The ineffective response of these authorities may be examined in two ways. First, various measures and plans for improvement were not implemented. In recent years, reducing the trade deficit with Japan has been the primary focus of our economic and trade policies. Authorities concerned have taken various appropriate measures and plans, such as diversifying markets for imported raw materials, expanding sales to the Japanese market, improving production technology and productive forces by encouraging research and development, and speeding up improvement of the industrial structure and production structure. All [this was done] in order to fundamentally improve the trade deficit [situation] with Japan. Most of the measures and plans have either become mere slogans or "show," or have been inappropriately implemented, and so for many years most were not fulfilled or effective, and so the problem still exists. Second, negotiations with Japan were not properly executed. Because of our nation's special political and economic environment, the Japanese government has always more or less discriminated against us, which has made it extremely difficult for our economic and trade authorities to negotiate with Japan. In spite of this, our economic and trade authorities would have more room to maneuver if they could make better use of the nation's economic strength, and employ international negotiation techniques without being either haughty or humble.

Several years ago, the Ministry of Economic Affairs suddenly banned imports of over 1,000 different commodities from Japan without warning. Although it inflicted quite a big blow on Japan, it was not compatible with the principles of international negotiation. Therefore other nations accused [us of playing] dirty tricks, which weakened our international image. As a matter of fact, this drastic measure had little effect on reducing the trade deficit with Japan.

[We] must try to reverse the tendency of the trade deficit with Japan to increase year after year. Otherwise, the deficit may grow to \$10 billion next year or in the following year. We sincerely hope that the economic and trade authorities can recognize the importance and urgency of this problem, and take appropriate measures quickly. Judging by the reasons the trade deficit with Japan occurred, we believe that reversing the trend may basically mean nothing more than speeding up diversification of markets for imported raw materials, strengthening expansion of sales to Japan, enhancing research, developing new products, improving production technology and productive forces, improving industrial structure and production structure, and so on. This may all seem commonplace, but it is extremely important and crucial to solving the problem. How to formulate feasible, appropriate measures and plans in accordance with these basic means, resist pressure from interest groups, and overcome all difficulties using matchless morals and courage is an urgent topic for the newly appointed head of the Ministry of Economic Affairs as well as the cabinet lead by Hao [6787]

Apart from the basic measures mentioned above, economic and trade authorities may also impose anti-dumping tariffs on Japanese goods being dumped, feeling that this is an appropriate short-term measure. Improving economics and trade negotiation skills with Japan will depend on the cooperation and joint effort of all units involved. This point should be particularly emphasized, for even a trivial "victory" at the negotiation table can bring about great "real benefits."

Hsiao Wan-ch'ang [4682 8001 7022], newly appointed head of the Ministry of Economic Affairs, recently indicated that economic means will be adopted to reduce the trade deficit with Japan. If the Japanese side continues to be inattentive, however, administrative guidance would be carried out. Administrative guidance means that, with regard to trade, government authorities will try to avoid intervening directly in importing and exporting; however, if it is necessary, they might [intervene]. Administrative guidance should be used with tactics, not with emotions. How the United States employs the 301 Act may be taken as reference. We hope that authorities concerned will prepare early and work out specific, feasible, and effective "administrative guidance schemes," so that it can readily be "used."

22161

166

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